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# Choice, Charters, and Public-School Competition

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When historians review the changes made concerning schools over the course of the twentieth century, two things are likely to stand out: the dramatic consolidation of school districts, leaving fewer, and significantly larger, districts, and the rise in unionization of schools. Historians may not immediately see the interaction of these two things, but it is precisely this interaction that increases the importance of new forms of competition among schools. The improvement of our schools in the twenty-first century is likely to rest on developing forms of school choice—vouchers, charters, and other institutions—that counteract the forces of the twentieth century.

School choice comes in a variety of forms ranging from home-location decisions to home schooling. This paper considers the underlying concepts behind choice and then concentrates on the alternative forms of public-school choice that have developed—contrasting open-enrollment programs with charter schools.

All consideration of school choice is, of course, complicated by the politics of the situation.<sup>1</sup> This discussion focuses on the outcomes of choice and not the underlying politics of implementation.

## THE CONCEPT OF SCHOOL CHOICE

The expansion of schooling during the twentieth century dramatically changed the nature of discussions about schooling in the United States. The United States, which led the world's schooling transformation, went from a small, elite system to one that was significantly changed in breadth and depth. Universal schooling with progressively older students became the norm throughout the country.

There was also a dramatic consolidation of school districts. In 1937, there were 119,000 separate

public-school districts. Today, there are fewer than 15,000. Over the same period, funding also changed dramatically. In 1930, less than ½ percent of revenues for elementary and secondary schools came from the federal government and less than 20 percent came from states, leaving 80 percent to be raised locally. By 2000, the local share was down to 43 percent, with both federal and state shares rising.

Why is this important? It is reasonable to presume that parents of school children were much closer to what was going on in the schools 75 years ago than they are today. Small districts that were supported by local funds almost certainly must pay attention to the needs and desires of their students. But just the opposite is likely today. A limited number of large districts effectively moves the decisionmaking and management of school districts away from the local population. Moreover, larger districts mean parents have more diverse preferences concerning what they want in their schools. Thus, the choice of any district is necessarily a compromise among various interests.

Another aspect of the changes in government revenue and support has been the overall centralization of decisionmaking. As states have become more prominent in funding schools, they have also moved toward more centralization of decisions about operating them. This is natural because, if they are going to fund schools, they do not want their state (or federal) funds to be wasted. But again, the result is that school decisions have migrated away from the parents and local voters and toward state bureaucracies.

The small school districts found at the beginning of the last century show one way in which schools can be responsive to their constituencies. If the schools deal with a limited number of parents and if the parents directly control the funding of the schools, parents can exert some influence on what the school does.

The responsiveness of districts would not require direct consultation with all of the parents. Tiebout (1956) suggested that parents could satisfy their desires for local governmental services by shopping for the jurisdiction that provided the best level of services for their individual desires. Thus, by sorting out across places, parents could group together to ensure more homogeneous demands. Moreover, since one aspect of schools is how effectively they use their resources, competition for consumers could pressure schools to improve their performance and efficiency.

This view of shopping across alternative jurisdictions does, however, have limitations. For a variety of reasons, the public schools might not look too different from each other. The central state restrictions, the limited viewpoints of school personnel, and other factors could lead schools to be quite similar in approach, curriculum, and goals.

The contraction of choices of different school districts, along with the other choice aspects of home location, thus put natural limits on the Tiebout choice that can go on in many areas of the country. Restoring the ability of parents to enter easily into the schooling process will depend crucially on developing and sustaining new ways for them to exercise choices.

Expanded choice in schools was first promoted in Milton Friedman's *Capitalism and Freedom* (1962). He argued that government may want to intervene in the area of education for a variety of reasons, but none of the potential reasons, including ensuring a minimal level of education by the population or enabling the children of the poor to attend schools, requires government actually to run the schools. The now-obvious alternative identified by Friedman is providing vouchers to parents. These vouchers would transfer funding to the school that a parent chooses, allowing an alternative to the Tiebout choice of schools.

The fundamental idea, underlying either form of choice, is that freeing up consumer demand can have a variety of beneficial effects. Consumers can select the alternative that best meets their interests and desires. Importantly, since few consumers like overpriced goods, such demand pressure could lead to efficiency and innovation in education. If one school did not provide good value, it would tend to lose students to a competitor that offered more for the

level of spending. And it is precisely these incentives that are most important in assessing school choice.

With some exceptions due to special circumstances such as the Cleveland situation, the voucher idea has yet to be met with much policy success. Perhaps the most obvious factor is the rise of teachers' unions. At the time of the original suggestions of vouchers and the related significant changes in schools, unions were not pervasive. Their subsequent rise and increase in power has forever changed the ability to introduce any radical policy in schools. Specifically, a fundamental precept and implication of competition in schools is that the job security of some current personnel would be threatened. This result is anathema to unions, which have vigorously attacked any hint of even experimenting with choice. They have been very effective at resisting any such change, mounting powerful media campaigns to prevent citizen referenda on vouchers from being adopted.

A particularly effective argument in the public-relations war over vouchers states that giving money to private schools would harm public schools and that we should instead be working to improve public schools. A second argument states that private schools are not under the control of the government and are not accountable for the government funds they receive. The following sound-bite summary has been the mantra of a number of people: "I favor choice, but it should be restricted to public-school choice." This position has been particularly popular among politicians who want to protect the existing public schools from any competitive pressures while still seeming open to more fundamental school reforms.

Yet citizen sentiment for expanded choice has generally increased over time, and this has led to a variety of innovations in school choice that fit the notion of public-school choice. Importantly, they are not all the same, and they have very different incentive effects. Two quite different kinds of choice stand out: open-enrollment or magnet school plans and charter schools. It is useful to review these in terms of outcomes and incentives.<sup>2</sup>

## PUBLIC-SCHOOL CHOICE

A particularly popular version of public-school choice involves an open-enrollment plan. For example, any student could apply to a school in his or her district

other than the one to which he or she was originally assigned. Or, in a more expansive version, no initial assignment is made, and students apply to an ordered set of district schools. A common version of this has been the use of magnet schools that offer a specialized focus such as college preparatory or the arts.

Forms of open-enrollment plans were the response of a number of Southern districts to the desegregation orders flowing from *Brown v. Board of Education*. In general, simple open-enrollment plans did not satisfy the court requirements for desegregation, but magnet schools (with racial-balance restrictions) became a reasonably common policy approach (Armor 1995). In 2001–02, 3 percent of all students attended a magnet school (Hoffman 2003).

As a general rule, open-enrollment plans produce few of the incentives that lie behind voucher plans. The flow of students is heavily controlled by the common restrictions that space must be available and that other requirements, such as racial balance, must be met. Most importantly, however, these plans seldom have much effect on incentives in the schools. Under open enrollment, personnel in undersubscribed schools generally still have employment rights and would simply move to another school with more students. Extending open enrollment across districts conceptually provides stronger incentives but unattractive funding, and the “if there is space at the school” clause generally stops all but some token movement.

A different development—charter schools—appears to offer stronger choice incentives. These schools differ dramatically by state, but their essential feature is that they are public schools allowed to operate to varying degrees outside of the standard public schools. They are schools of choice, surviving through their ability to attract sufficient numbers of students.

Charter schools can offer true competition to the regular public schools because they can draw students away from poorly performing regular publics. Employment rights typically do not transfer between charters and regular publics, so personnel in charter schools could be under pressure to attract students. The pressure on regular public schools comes from the potential loss of students, which would lessen the demand for public schools and their teachers.

Since the nation’s first charter-school legislation was enacted in Minnesota in 1991, 41 states and the District of Columbia have passed legislation that provides for charter schools, although some had yet to open any schools by 2004. For the nation as a whole, charter schools increased from a handful in 1991 to nearly 3,200 schools serving almost 800,000 students, or over 1.5 percent of the public-school population, in 2004. In some places, charters have become quite significant. For example, in the 2003–04 school year, almost 17 percent of students in the District of Columbia, 8 percent in Arizona, and 4 percent in Michigan attended charter schools.<sup>3</sup>

To date, studies of the outcomes of charters have been limited by some serious analytical difficulties. Because the students voluntarily choose these schools, it is always difficult to infer the impact of the school as distinct from the characteristics of the students it attracts. Additionally, because charter schools are largely new, most are still going through a start-up phase, and it takes large inferences to know what they will look like in the steady state.

My own work provides some preliminary estimates of the performance of charters in Texas (Hanushek, Kain, Rivkin, and Branch 2005). The simplest design for dealing with selection problems is to compare the average learning growth for individual students when in the regular public schools with their own performance in the charters. In this way, charter students become their own control group.

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

These findings are consistent with much of the other recent work, although there are some remaining uncertainties. The average North Carolina charter appears less effective than the average traditional public school (Bifulco and Ladd 2004), while the average Florida charter is on par with the regular public schools after a start-up phase (Sass 2005). On

the other hand, relying upon comparisons between charter applicants in Chicago who were randomly accepted or randomly denied admission, Hoxby and Rockoff (2004) conclude that the three charter schools they observed significantly outperformed their standard-school counterparts. But these results await both the general maturation of more charter schools and the investigation of their performance in different settings.

Another important aspect of competitive markets is the enforcement of discipline on the other participants—in this case, the regular public schools. Is there any evidence that the regular public schools respond to the pressures of competition? Again, it is very early in the development of charters, but Hoxby (2003) introduces preliminary evidence that there are competitive improvements.

Our Texas study also provides information on competition. If we look at the behavior of parents, we find that they are significantly more likely to withdraw their children from a poorly performing charter as compared to a well-performing charter (Hanushek, Kain, Rivkin, and Branch 2005). This finding is particularly important because parents are not given information on the value-added of their charter school. The behavior of parents shows, however, that they are good consumers and that they can use the performance data that are available to infer the quality of the school. An early and continual criticism of the voucher idea is that parents are not good consumers, an assertion belied by the data.

## CONCLUSIONS

The idea of school choice is a natural extension of arguments about the benefits of competition to education. The clearest form, advocated originally by Milton Friedman and picked up by a wide variety of other people, is to give parents vouchers that allow them to shop for schools. While special circumstances

have led to the use of vouchers in Milwaukee, Cleveland, and the District of Columbia, their growth has been slow and erratic.

On the other hand, alternative forms of choice—under the banner of public-school choice—have become more pervasive. Some, but not all, of these alternatives offer benefits that are similar to vouchers. Most notably, charter schools offer students and parents the possibility of options that have the ancillary advantages of introducing competitive incentives for schools.

Charter schools are difficult to evaluate. Because students self-select into these schools, it is difficult to separate the quality of the students from the quality of the charter school. Moreover, most charter schools started very recently, making it difficult to see how they will evolve as they age.

Nonetheless, the best available evidence available indicates that, after a start-up period, charters have as much value-added as regular public schools—if not more. As with regular public schools, however, there is a wide range of quality in charters. But, importantly, parents appear able to recognize the quality of charter schools and to act upon that information by exiting low-quality charters at significantly higher rates than higher-quality charters.

Current personnel in the regular public schools resist expansion of charters, which they consider undesirable competition. This resistance takes a variety of forms. In some states there are strong pressures to limit the number of charter schools. In others, arguments that all schools should have a “level playing field” are used to justify increasingly stringent restrictions on the operations of charters. If we are to obtain the benefits of choice and competition, these pressures should be resisted.

## ENDNOTES

<sup>1</sup> For example, the teachers' unions, as part of their resistance to competition, gained national publicity for their simple comparison of scores for students in charter schools versus those in regular public schools (Nelson, Rosenberg, and Van Meter 2004). More serious work, however, has concentrated on adjusting for the special populations that opt for charter schools and other choice schools.

<sup>2</sup> One very different option not covered here is home schooling. A significant number of parents have simply withdrawn their children from the regular public schools and have taken personal responsibility for their education (but with no governmental financial support). Some estimates put the numbers of home schoolers between 1.5 percent and 2 percent of all school children, although there is uncertainty even about the numbers involved (Henke, Kaufman, Broughman, and Chandler 2000). Little is known about this in terms of movements in and out or of performance, and the incentive effects for most existing public schools appear small.

<sup>3</sup> Data from the Common Core of Data of the National Center for Education Statistics (<http://nces.ed.gov/ccd/bat/index.asp>).

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