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Education Vouchers: An Administrative Challenge?

In discussions of the financing of elementary and secondary schools, the distinction between *public finance* and *public provision* of educational services is rarely drawn. Consequently, the assumption has hardened that they are reciprocal terms. This paper challenges this assumption to suggest that public finance is more appropriate than public provision of educational services. Further, it suggests that public finance for education can be effectively handled by education vouchers. An education voucher is a tax-financed coupon, specifying an amount based on an annual cost per pupil for education which, distributed to all parents, entitles the child to a place in *any* approved school.

Historical Note

The idea of an education voucher was initially proposed in a speech before the National Catholic Congress in Manchester, England, in 1926. In this speech, Cardinal Bourne proposed that an annual warrant be distributed to each parent entitling the child to attend any recognized neighbourhood school. Essentially, Bourne's proposal sought to remove the financial inequity burdening dissentient religious minority groups by providing a tax-financed bursary to all school children. The proposal, while failing to win political support, created considerable "consternation" in the audience for it assailed a cardinal principle of education — that public finance and public provision are coincidental.

Since 1926, occasional recalcitrants have championed the idea of education vouchers, notably Milton Friedman. Friedman's efforts attracted academic interest, although dismissed caustically by John Vaizey as being "so eccentric as not to merit serious discussion."¹ This ungenerous judgment reflected popular opinion, for public finance and public provision have been cemented as one by tradition.

This tradition, however, took a hard jolt with the publication of E. G. West's *Education and the State*.² West challenged conventional inter-

¹John Vaizey, "Education as a Public or Private Good?" in *Perspectives on the Economics of Education*, Charles S. Benson, editor (Boston: Houghton Mifflin, 1963), p. 143.

²E. G. West, *Education and the State* (London: The Institute of Economic Affairs, 1965).

pretations of the history of English education by evincing that a system of universal access to private schools existed before the imposition of the nationalized system of education. West questioned traditional versions of the views of classical economists on public intervention in education by demonstrating the distinction between public finance and public provision. This distinction, he claimed, could be made practically effective with the use of education vouchers. In this, West provided a feasible alternative to monopolistic public provision of elementary and secondary educational services.

West's provocative book has attracted much attention, particularly in England. While proponents of education vouchers have been revitalized, others have been moved to examine the premises behind public provision of education. In this examination, many of the premises for its support have appeared strong in tradition but delicate in logic.

Principles of Public Provision

Protection of Children. Public provision of education rests on an assumption that most children should be protected from incompetent parental choices for their education. An operative word is "most" as the rich, armed with extra money votes, can more easily influence the life-chances of their children by choosing a private education. Since governments have been unwilling to prohibit private education altogether, incompetent parental choice can be adduced against those other than the rich.

The issue becomes the degree of choice and associated differences in philosophical concepts about the role of the state. If choice is entirely restricted by compelling attendance in neighbourhood public schools, then one may agree with Vaizey that education is an intervention to save the child from his family. In this case, private education would be eliminated, and educational decisions would be in the hands of professional experts. If, on the other hand, one believes that education is a parental responsibility then parents ought not be disadvantaged in their ability to choose among schools.

Under present arrangements, private education has not been eliminated and many parents are disadvantaged. Lower income parents find it much more difficult to bear the substantial private costs of foregone earnings in keeping children at school beyond the statutory leaving age. Consequently, the higher incidence of school "drop-outs" among the children of these parents is less demonstrative of deficiencies in parental aspirations than it is indicative of the expense of "free" education. Moreover, educational apartheid has been produced in the public sector with residential segregation. The "better" schools tend to be located in higher income neighbourhoods. The "better" teachers tend to opt for placement in similar neighbourhoods. Consequently, the lower income parent seeking better schooling for his child is in an extremely difficult financial

position since he must either move to a richer neighbourhood or scrimp to send the child to a private school.

It is contradictory to presume that incompetent parental choices for education occur in financially disadvantaged families, yet to provide a public system of education that tends to give advantage to the higher income families. The introduction of education vouchers would obviate this contradiction. A voucher system would free parents to purchase educational services from a school of their own choice. This choice would demand, and elicit, much more interest from parents than the indirect political choices currently available through the ballot box.

Equality of Opportunity. Public provision of education rests on an assumption that public provision will equalize educational opportunities. This assumption represents the principal 20th century argument supporting publicly-provided education. Tradition holds that private provision of education is discriminatory. It maintains that cumulative educational advantages will accrue to the rich and to the interested while others will be seriously disadvantaged. In other words, inequalities will occur in any educational system structured on the basis of purchasing power. To establish equality, differences in purchasing power and in the provision of educational services must be smoothed, or made more equal. Since such action requires the meting out of unequal treatment, it is argued that only the state can perform this difficult function.

Progressive taxation is the acknowledged means of effecting some softening of purchasing power differentials. Progressive taxation applied to income takes more income from the higher income earners both absolutely and proportionally. These reductions in higher incomes, or losses in purchasing power, are funnelled off to lower income earners as welfare payments. Consequently, progressive tax systems tend to secure some leavening in purchasing power differentials.

In Canada, public elementary and secondary education finds its main financial support in a regressive tax system applied by local and provincial governments. These regressive tax systems are illustrated in Table 1. The Table has been reproduced from a study by Goffman,³ dealing with 1957 data, which remains the most recent Canadian analysis. Table 1 shows taxes as percentages of income for specified income classes in each of three levels of government. These effective rates of taxation illuminate the different qualities of the tax systems. Local taxation appears markedly regressive and provincial taxation approximates proportionality, while federal taxation is uniquely progressive. Since about half of the revenues for public elementary and secondary schools derive from local taxation, with a good proportion of the remainder from provincial taxes, it might well be wondered,

³Irving Jay Goffman, *The Burden of Canadian Taxation* (Toronto: Canadian Tax Foundation, 1962), Table IV, p. 15.

whether 'free' public education, supported by a tax system which is as regressive as most state and local tax systems tend to be, is not really a device for subsidizing the education of the rich rather than that of the poor.⁴

TABLE 1
Effective Rates* of Taxation
By Levels of Government
1957

Income Class	Local	Provincial	Federal
Under \$1000	7.3	2.9	11.6
\$1000-\$2000	5.0	2.9	13.0
\$2000-\$3000	4.2	3.0	13.8
\$3000-\$4000	3.7	3.0	14.1
\$4000-\$5000	3.8	3.2	16.0
\$5000-\$7000	3.7	3.3	17.5
Over \$7000	3.7	4.4	24.3

*Taxes given as percentages of income.

Since regressive taxation is applied to most education tax sources, it follows that purchasing power differentials between high and low income classes become exacerbated. Furthermore, higher income earners have smaller families. Consequently, inherent financial advantage to children of these families is perpetuated, on the tax side. The direct solution to this problem hinges on the application of the principles of progressive income taxation to taxation for education. The resulting revenues could be distributed equitably to the parents of all children as education vouchers.

Governments have engaged the problem of financial disadvantage in an indirect manner, by providing dispersed and minimally homogeneous public education facilities. No advocate of education vouchers would deny the necessity for governments to prescribe minimum educational standards and to compel attendance to a minimum age. But enforcement of minimum standards *per se*, does not constitute grounds for the nationalisation of the education industry and government administration of schools.

It has been observed that "heavy government expenditures and liberty are incompatible."⁵ The inexorable expansion of public education has heightened restrictions of choice. Compulsory catchment areas for trapping children in particular schools have obliged parents to accept their local educational services whether they like them or not. In contrast to the provision of substantive public services, such as roads and power,

⁴Kenneth Boulding, "Review of 'Education and the State,'" *Chicago Law Review*, Spring, 1966.

⁵Frederic Bastiat, *Economic Sophisms* (Princeton, N.J.: D. Van Nostrand Company, 1964), p. 152.

educational services lack coequality. Since differences exist, compelling customers to deal with certain schools restricts educational opportunities.

In market transactions, customers are free to decline a service or make purchases elsewhere. The customer judges the various offerings and chooses to accept a particular service voluntarily. In the provision of educational services, government obliges parents to accept what it provides and to pay the price that it sets. Friedman illustrates this distinction in his classic example of the low income parent aspiring to emulate the rich.⁶ By dint of economising, the low income parent can accumulate the money necessary for choice in purchasing the trappings of the rich, like clothes and furniture. These are market items whose purchase is restricted solely by the availability of money. But choice in the purchase of better schooling for his child is effectively denied the low income parent by the necessity to move his place of residence (for public schools) or to bear a double payment (for private schools).

It is specious to advocate public provision as a means of equalising educational opportunities while supporting it with regressive taxation systems and attendance area restrictions. The use of education vouchers would clear these inconsistencies. The revenues from current regressive taxation could be redistributed to parents with vouchers based on progressive taxation principles. The resulting financial aid to parents would be inversely related to income levels. The distribution of vouchers would also free parents to purchase education at *any* government approved school. In the exercise of choice, parents would judge the offerings of particular schools with intent. Schools, or classrooms, failing to win sufficient voluntary acceptances would consequently decline.

External Benefits. Public provision of education rests on an assumption that society benefits, socially and economically, from increasing schooling for its members. Historically, it was believed that the external benefits to society would be a reduction in crime and disorder. The argument was that the costs of more education would be won from reductions in the costs of combating crime and protecting property. Today, external benefits to society refer particularly to the economic effects of additional schooling. Education is understood as investment, the benefits of which generate advances in real income for society as a whole.

Evident misconceptions occur in both analogies, but each was appropriate to its time. The historical analogy drawn between additional education and civic peace was meaningful in a society where the sociology of crime was little understood. The modern analogy drawn between additional education and economic growth similarly overrates the relationship. In each situation, the emphases occurred to support the allocation of increased public funds to education.

⁶Milton Friedman, "The Role of Government in Education," in *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 92.

External benefits to society from investment in formal education may issue from two sources. First, benefits will occur if the lifetime earnings of an educated person exceed the costs, including foregone earnings, of his education. Investment in formal education positively generates this type of economic growth, but its contribution is not unique. All investment produces some external benefit. The unresolved problem is whether investment in public elementary and secondary education creates *more* growth than investment in physical capital, in on-the-job training, and in each of the other social services. Measurement of the relative sizes of induced growth from each of these sources is required before the allocation of resources for maximizing economic growth can be determined.

Secondly, economic benefits will occur if the additional education of one individual raises the real incomes of other individuals. This idea of investment in education generating spill-over benefits to the economic advantage of society as a whole is illusive. The difficulty lies in isolating the influences that have produced real income changes, particularly in limiting the concept of "education." Education not only accrues from formal schooling, but also from informal experiences in the home, on the job, in peer group society and so on.

Although the measurement of actual benefit to society from investment in formal education remains indistinct, a relationship between economic growth and investment in formal education is accepted. The fashion in accenting this relationship tends to obscure the distinction between public finance and public provision of education. External benefits of education may constitute grounds for government intervention, as enforcement of standards and a minimum leaving age, but they do not stand up as argument for public provision of education. Again, if the major impediment is financial, the use of education vouchers would accomplish the subsidization required.

Social Solidarity. Public provision of education rests on an assumption that public provision will inculcate common values and produce national cohesion. Again, the relevance of this assumption varies with times and places. Its justification may be cogent in the formation of new nations, as in 19th century America or 20th century Africa. The dissemination of common social values through public provision of schools in the United States has been widely celebrated as the way to national solidarity and equality of opportunity. But historical relevance does not vindicate current usage. Evidence exists that these schools have aggravated racial and minority group distinctions through residential qualifications. Segregation occurs as minority group parents are denied effective opportunity to choose schools outside their residential areas. Social class distinctions have not, consequently, been ameliorated. Furthermore, the attempt to promote cohesion by conscripting children into

common high schools has been supported more by plausible inference and less by satisfactory evidence regarding outcomes.⁷

While the definition of "social solidarity" is beset with contention, it is sophistry to advocate public provision of education to achieve social cohesion while indulging private education for those who can afford it.⁸ Again, social cohesion obtained through public education is at the cost of restrictions in choice and, consequently, in educational opportunities. These contradictions would be removed with the use of education vouchers. Minority group parents could be given larger vouchers to expand their opportunities for choice among schools.

A Voucher Scheme

Historical events have inhibited thinking of the distinction between public provision and public finance of educational services. The confusion between these terms has been pointed out in this short paper. A cursory examination of the principles of public provision of elementary and secondary education reveals that they are marked by inconsistencies. Protection of children, equality of opportunity, external benefits, and social solidarity constitute grounds for public intervention in education by enforcement of minimum standards and by use of public finance, but they do not stand as arguments for public provision. And public finance of education could be handled most effectively with the use of education vouchers.

A voucher scheme would require the distribution to all parents of vouchers exchangeable for elementary and secondary education at any school that has met minimum standards as determined by government. The value of the voucher would reflect average costs of education according to age, and would be inversely related to income levels. All schools would charge cost-covering fees, and would compete with each other for clients. This scheme would not require any change in current school ownership.

The stimulation of competition among schools would promote innovation, creating much more variety in educational institutions. This variety, however, would always be tempered by the need to survive by responding to parental wishes. In this way, the scheme resembles current Soviet thinking that only market demand can satisfactorily determine the profitability, hence success, of consumer-oriented industries. To achieve this, centralized direction has to be reduced to inspection for minimum standards thus freeing factory managers to develop processes and products that will attract buyers. Current stress on the production, or investment, aspects of education often suppresses the fact that the

⁷A. T. Peacock and J. Wiseman cited in Mark Blaug, "Economic Aspects of Vouchers for Education," *Education: A Framework for Choice* (London: The Institute of Economic Affairs, 1967), p. 44.

⁸Approximately 10% of secondary school enrolments, and 3% of elementary enrolments, are in private schools in Canada.

purpose of education is consumption. With the voucher scheme, schools would profit or perish according to their ability to attract and hold clients.

This proposal is far from complete, but the argument presented in this paper should stimulate fresh discussion on the use of education vouchers. Regarding their introduction, Blaug has observed:

When every other argument fails, some opponents of the voucher scheme fall back on the idea that it is not politically feasible. Of course, this is no argument at all and, when carried to its logical conclusion, denies the power to reform human institutions. The administrative problems of introducing the voucher scheme, once we are convinced of its desirability, are no greater, and could be much smaller, than were involved in the introduction of the (British) National Health Service.⁹

⁹Mark Blaug, "Economic Aspects of Vouchers for Education," in *Education: A Framework for Choice* (London: The Institute of Economic Affairs, 1967), p. 46.