

BRIEFING

EDUCATION SAVINGS ACCOUNTS FOR TEXAS

How Educational Choice through ESAs Create Greater Innovation and Quality

By Vicki. E. Alger

INTRODUCTION

When it comes to innovation and economic productivity, Texas typically ranks among the top ten states in the country—or not far behind.¹ It leads in 10-year economic growth and productivity, as well as domestic migration, particularly among young adults and families.² Texas is also one of the most innovative states in terms of high tech and related fields, and several of its cities are nationally ranked for their diversified industries and occupations.³

Integral to Texas's strong economic performance and business success is its cultivation of a welcoming environment for entrepreneurs and businesses of all shapes and sizes. More than one out of 10 of the country's largest public and private businesses call Texas home.⁴ Texas also adds new businesses at a rate that is more than double the national average.⁵

But the dominance of Texas in the competitive economic sector stands in stark contrast to its distinctively un-competitive K–12 education sector, which is essentially dominated by one type of provider: public district schools. In contrast, Florida, which also enjoys a vibrant business climate, has a far more inviting educational climate, one that encourages new providers through a variety of educational choice programs beyond the public system, including education savings accounts (ESAs).⁶

Since business experts agree that the Sunshine State is giving the Lone Star State a run for its mon-

ey in their rivalry to be the best place in which to do business, Texas policymakers may wish to reconsider the state's lack of educational choice. Indeed, Texas belongs to the ever-shrinking minority of states without a single private school scholarship choice program.

To be sure, there is strong demand for more education options in Texas. Nearly half of Texas parents surveyed (47 percent) said they would prefer a private school for their child, and 71 percent of them support ESAs.⁷ But how might the supply side change?

ESAs: THEORY AND PRACTICE

Sixty years ago the late Nobel Prize-winning economist Milton Friedman proposed a radical idea based on a simple insight: just because we fund schools through government doesn't mean government knows how to run schools or what kind of education is best for other people's children.

To improve American education for all students, Friedman argued that (1) parents should decide what schools are best for their children, (2) schools and teachers should be free to innovate, and (3) public funding should follow students to schools of their parents' choice.⁸ "Education spending will be most effective," Friedman explained, "if it relies on parental choice and private initiative—the building blocks of success throughout our society."⁹

Similar to Adam Smith, Thomas Paine, and John Stuart Mill, Friedman advocated a system of publicly funded vouchers because it would free parents to choose the schools they thought were best for their children, and schools would have to compete for students and their associated funding.

ESAs are the latest advance in educational choice, fostering an unprecedented level of personalized learning opportunities for students customized by those who know and love them best: their parents.

Modeled after health savings accounts, or HSAs, ESAs are simple in theory and profoundly transformative in practice. Parents who do not prefer a public school for their child can simply withdraw him or her, and the state will then deposit most or all of the money it would have spent into that child's ESA instead. Parents receive a type of dedicated-use debit card to pay for authorized expenses, including private school tuition, online courses, testing fees, tutoring, and special education therapies. Any leftover funds remain in the child's ESA for future education expenses, including college.

ESAs are also fiscally responsible. ESA funds are disbursed quarterly, but only after parents submit expense reports with receipts for verification. Regular audits also help prevent misspending. If parents misuse funds, they forfeit their child's ESA and must repay misused funds or face legal prosecution.

Today ESAs are helping more than 9,000 students in Arizona, Florida, and Mississippi. So far this year more than 7,800 ESA applications have been submitted in Nevada, and Tennessee is accepting applications for its ESA program, which begins in January 2017.¹⁰

INITIAL CONSIDERATIONS ABOUT SUPPLY

Educational choice is a relatively recent phenomenon. Our current public school system has operated as a virtual monopoly at the elementary and secondary levels for more than a century, complete with statutory state funding formulas. In fact, K–12 education funding now averages nearly 20 percent of states' total expenditures—about 6 times the percentage spent on corrections and nearly twice the

average percentage spent on higher education.¹¹ This structure necessarily discourages alternative K–12 education providers, who would have to compete for students against “free” schools.

Unfortunately, currently all 26 voucher scholarship programs, along with each of the 21 tax-credit scholarship programs, insulate district public schools from competition for students to one degree or another. This is accomplished by capping the number and/or type of students eligible for education choice programs. Scholarship amounts, donations, and allowable credits are also restricted. Fewer students and resources mean fewer potential providers that can operate successfully. Some states also expressly prohibit certain types of private schools from participating, particularly faith-based schools. Even in states without such restrictions, some private providers may decide against participating in educational choice scholarship programs due to concerns about onerous government regulation.

Constraining demand by design in these ways could mean that the overall supply of private education providers might remain largely unchanged for the foreseeable future, particularly since scholarship amounts likely cover only the marginal costs of educating students. Some researchers have even suggested that the current supply of private schools could be able to meet or approach current capacity, but it is unlikely they would expand.¹²

To achieve a better equilibrium between the demand for educational choice and the supply of providers requires expanding student eligibility, minimizing restrictions on education providers, and making funding student-centered, that is, basing funding decisions on the actual costs of educating individual children rather than rigid historical public school spending formulas. Such changes would make more options available to a greater number of students—and ESAs certainly help more parents access these options for their children.

ESAs have great potential to increase the quantity of educational options. More importantly, they can also greatly improve educational quality. ESAs turn the prevailing one-size-fits-all wisdom of the

current system on its head by personalizing learning to unprecedented levels.¹³ Not only are parents more satisfied by having greater options, students are thriving academically and socially at less cost than a typical public school setting. The rapid expansion of ESA programs also shows that there is tremendous opportunity for more customization in education, for greater innovation from the existing supply of providers, and for the emergence of many new providers.

EDUCATION CUSTOMIZATION AND SUPPLY-SIDE CHANGE

The prevailing public district school system was intended to provide universal access to K-12 education. However noble the original intention, over time it became a compulsory system based on the notion that a uniform education would work best for all students.

Ironically, such thinking seems to influence the design of most educational choice scholarship programs, in which private schools act as escape valves for a distinct minority of students with unique needs or circumstances. Thus, only about one-third of all private school scholarship programs currently have a student eligibility rate of 50 percent or higher.¹⁴

Restrictions on the eligibility, however, conflict with the desire held by parents from all walks of life for greater customization in education.

Arizona is home to the country's longest-running ESA program, enacted in 2011. Since then Arizona has annually expanded its ESA program to include more students, such as those who would otherwise attend failing public schools, students in or adopted from the foster care system, children of Active Duty military parents who reside in state or who were killed in the line of duty, eligible kindergartners, siblings of current and former ESA students, and children who reside within Indian Reservation boundaries.¹⁵ Arizona's program is so popular that participation has roughly doubled each year during the first five years of the program alone, growing from around 130 students in 2011 to nearly 2,500 students in 2015.¹⁶

Nearly one-third of parents with children enrolled in ESA programs buy learning services from multiple providers, including private schools, tutors, online course providers, and special education therapists.¹⁷

To be sure, Arizona's program would be better if, like Nevada's ESA program, virtually all students were eligible to participate. Yet it is significant that the desire for greater customization in education transcends socio-economic circumstances. The freedom to choose not simply where but also how their children are educated contributes to high parental satisfaction with ESAs. Fully 100 percent of participating Arizona parents report being satisfied with the program, with 71 percent reporting they are "very satisfied." In contrast, just 43 percent of parents reported any level of satisfaction with their children's previous public schools.¹⁸

COMPETITION, COOPERATION, AND CUSTOMIZATION COEXIST

Competition need not be cutthroat to be effective. On the contrary, a significant body of research shows that competition for students from educational choice programs benefits public schools and students. In fact, 22 out of 23 empirical studies show positive impacts from school competition, including improved reading and math achievement, and none found negative effects.¹⁹ Researchers from Columbia University's Teachers College also reviewed more than 200 scientific analyses and concluded that competition benefits public schools "across all outcomes," including higher student achievement, graduation rates, efficiency, teacher salaries, and smaller class sizes.²⁰

In a nutshell, competition may not make our lives easier, but it does make us better. In the case of schooling, even if educational choice programs do not necessarily increase the sheer number of new providers, choice does improve the availability of new educational programs for students among current providers, thereby having a positive effect on current supply. Examples from existing educational choice programs help demonstrate this point.

A former headmaster of a well-established private

prep school once recalled how he and the principal of the neighboring K–8 public school had worked together each year to identify students who wanted the kind of education his high school offered. The headmaster, whose school served boys in a now-disadvantaged neighborhood in Phoenix, would then help raise donations through Arizona’s tax-credit scholarship programs, thereby ensuring that interested parents of those students (all of whom were low-income) would have scholarships for their children.

In the fall of 2014 the Wichita Urban Prep Academy opened its doors as a private K–5 school, after purchasing a building that once housed a public school that the district had closed. Founder Pastor Wade Moore modeled the private academy after the A.W. Brown Fellowship-Leadership Academy and Focus Learning Academy in Dallas, both public charter urban schools. Yet Wichita Urban Prep offers its students an unusual, perhaps unique program. In addition to its core subjects, Pastor Wade explains, “our focus is business, entrepreneurship and cultural awareness . . . [which is] more than a racial thing. . . . We’re creating a different kind of culture here—a culture of professionalism, a culture of respect, a culture of higher learning earlier.”²¹

These two examples illustrate how existing educational choice programs maximize existing supply and capacity to generate even more diverse opportunities to meet demand. ESAs build on the success of existing educational choice programs and change the supply side by enabling parents to customize available products and services, as well as encourage the entry of additional providers.

CUSTOMIZING SUPPLY CHANGE FOR STUDENTS, NOT THE SYSTEM

As noted previously, existing educational choice programs are largely designed to work around the predominating district public school system. By giving parents control of a significant portion of their children’s education funding, their learning can now be customized to unprecedented levels. In the not so distant future it is likely that parents will spend the lion’s share of their children’s ESAs on tuition not

at a particular school, but rather on courses taught by tutors that parents thought were best for their children.

Imagine a third grader who excelled at math but needed additional help with reading. His parents could enroll him in online courses specializing in math instruction for gifted students. They would also have the funds to purchase educational materials from a different provider that specializes in helping struggling readers. The student would progress at his own pace, and his parents would not need to worry that he is either being advanced too quickly or held back a grade based on underperformance in a single subject.

Consider another example. There is growing concern about the decline in civics knowledge among high school students. A variety of non-profit organizations already address this problem by providing seminars, workshops, and training using original Founding documents. Concerned parents could enroll their children in such courses and purchase those materials.

When it comes to innovative potential providers, we need only look within our children’s classrooms. A growing number of teachers are becoming entrepreneurs by creating their own curricula and lesson plans and selling them to other teachers through online marketplaces. These former cottage industries have quickly become multi-million dollar enterprises, and teachers are reporting sales and earnings equivalent to district superintendents’ six-figure salaries.²² The availability of ESAs would likely expand the supply of entrepreneurial teachers, who could be hired to develop lesson plans and courses tailored to individual students as a part of a stand-alone curriculum or as supplemental materials. This possibility has significant growth potential, since parents want to be sure that their children get educational materials that are developmentally and substantively appropriate for their age.

Another supply-side growth area with significant potential is the realm of student testing. Parents are increasingly concerned that many tests their children take are not aligned with subject stan-

dards and may be collecting private, non-academic information. Many homeschooling parents, for example, do not want to use any standardized assessments that are aligned with Common Core. In response, a number of smaller companies now offer standardized tests that are guaranteed 100 percent Common-Core-free. ESAs would help increase the number and kind of high-quality tests because parents can use ESA funds to pay for testing fees as well as test preparation.

In the final analysis, ESAs have tremendous potential to improve on the existing supply of education providers and services. Moreover, because ESAs customize options based on individual students, the supply-side of education could become as robust and diversified as the students.

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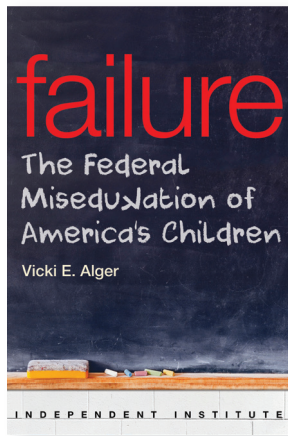
Alger's research focuses on education reforms that promote a competitive education marketplace and increase parents' control over their children's education. She is the author of more than forty education policy studies, co-author of *Lean Together: An Agenda for Smarter Government, Stronger Communities, and More Opportunities for Women*, *Short-Circuited: The Challenges Facing the Online Learning Revolution in California*, and *Not as Good as You Think: Why the Middle Class Needs School Choice*, as well as associate producer of the documentary

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Alger's research also inspired the introduction of the most school choice bills in California history—five in all—and her research was used as part of the successful legal defense by the Institute for Justice of the country's first tax-credit scholarship program in the US Supreme Court (*Arizona Christian School Tuition Organization v. Winn*).

Alger received her Ph.D. in political philosophy from the Institute of Philosophic Studies at the University of Dallas, where she was an Earhart Foundation Fellow. Alger lives in Arizona with her husband, David.



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