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ABSTRACT

This article examines an increasingly popular alternative to government-funded voucher plans: private voucher and scholarship plans. Through the 1998-99 school year, spending on privately funded voucher programs totalled $61 million. Private vouchers began with the Golden Rule Program in Indianapolis in 1991 and was inspired by insurance CEO J. Patrick Rooney. Rooney limited participation in the plan to less affluent families and covered only partial tuition. His ideas caught the attention of other executives and institutions, some of whom started their own voucher system. A few of these programs are reviewed here, along with their effectiveness and some financial considerations. Private voucher plans include the Children's Scholarship Fund, which was funded with $100 million and targets Catholic elementary schools, and New York City's privately funded School Choice Scholarship Program, which has been reported to improve the educational gains of low-income children. Researchers have reported that African-American students may have the most to gain from private scholarship programs. Such successes have built support for tax assistance for education costs, despite failed bills that would have given families tax breaks on various private- or public-school expenses. State legislatures, however, are introducing financial incentives, such as tax subsidies and tax credits. (Contains 27 references.) (RJM)

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Trends and Issues

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Private Voucher and Scholarship Plans

By Margaret Hadderman

In addition to government-funded voucher plans, which have been constrained by political and legal challenges, a number of privately financed voucher plans have emerged around the country. Beneficiaries include several thousand children from low-income families who receive grants covering about half the cost of private-school tuition. Funded by businesses, private foundations, and individual donors, these programs "are focusing public attention on the merits of Catholic, Baptist, Lutheran, Muslim, Jewish, and other religious schools" that are successfully and efficiently educating poor students in the same neighborhoods as their failing public schools (Meyerson 1999).

Through the 1998-99 school year, spending on privately funded voucher programs had totaled $61 million. As of 1999, these programs were allowing 13,000 children in 39 cities to attend private/parochial schools of their choice (Meyerson 1999).

Pioneer Programs: Founders and Philanthropic Philosophies

The earliest privately financed voucher plan was the Golden Rule Program in Indianapolis, established in 1991 by the Educational Choice Charitable Trust and inspired by insurance CEO J. Patrick Rooney (Fuller and others 1999). Rooney set the tone for the private-scholarship movement by limiting participation to less affluent families and covering only partial tuition—a "hand up" strategy designed to motivate parents to adopt "take-charge" attitudes and regard education as an investment (Meyerson 1999). Also, schools are free to exclude students not suited for their particular educational approach. By early 1999, the Golden Rule Program had spent $5.7 million on K-8 vouchers. It now offers lottery-awarded, half-tuition scholarships to over 1,700 Indianapolis children, with 4,200 on a waiting list (Meyerson 1999).

Rooney's program caught the eye of James Leninger, a medical-supply company CEO, and Fritz Steiger, president of the Texas Public Policy Foundation. In 1992, they initiated the Children's Opportunity Foundation, which offered scholarships to low-income San Antonio kids. Aided by the Walton Family Foundation, Leninger and Steiger spread Rooney's idea to other cities and established CEO America, based in Benton, Arkansas, "to provide matching grants and support services to new voucher programs" in many cities, from Los Angeles to Chattanooga, Tennessee (Meyerson 1999).

Michael Joyce, president of the Lynde and Harry Bradley Foundation, achieved the greatest public-policy success of all voucher philanthropists by founding PAVE (Partners Advancing Values in Education)—a scholarship program that led to Milwaukee's publicly funded voucher program serving 10,000 children (Meyerson 1999). In contrast to the Wisconsin legislature's modest parental-choice program that featured only private nonsectarian schools, the PAVE initiative embraced religious schools and poorer children already attending private schools at their parents' expense. PAVE's popularity with parents spurred the state legislature to include these provisions in its 1995 program expansion.

Scholarship Program Milestones

The "ABC-Giffen Scholarship Program is the first privately funded voucher program to provide scholarship opportunities to all the students from one school" (Fuller and others 1999). In 1997, philanthropist Virginia Gilder and other ABC (A Better Choice) founders offered a private-school scholarship (worth up to 95 percent of tuition or $2,000) to each of the 458 students attending Giffen Memorial Elementary School, which has... the lowest third-grade reading scores in Albany.

In 1997, "the New York City School Choice Scholarships Program began awarding 1,300 scholarships of up to $1,400 to low-income students entering grades 1-5" (Fuller and others 1999). By spring 1997, 16,000 parents had signed up (Jacobson 1997). Jacobson, a magnet school parent and choice advocate, observes that this eleven-to-one ratio is "greater than the odds of getting into Stanford."

In fall 1998, San Francisco Independent Scholars (SFIS) began offering $2,000 merit scholarships to 100 eighth-graders, based on grades, test scores, teacher recommendations, and essays (but not income) (Fuller and others 1999).

Horizon Scholarships of San Antonio, Texas, was the first privately funded voucher program to offer scholarships to all low-income students in one school district—the predominantly Hispanic Edgewood School District (Fuller and others 1999). In 1998, Leininger and CEO America committed more than $50 million over 10 years to give every Edgewood child "access to any religious, secular private, or public school in the San Antonio area" (Meyerson 1999). Students are admitted on their own merit, and the program has been extensively studied by Paul Peterson of Harvard University (See below).

The Children's Scholarship Fund: Charity, Capacity, and Motivations

The brainchild of venture capitalist Theodore Forstmann and Wal-Mart heir John T. Walton, the Children's Scholarship Fund has become the nation's largest private scholarship program (Fuller and others 1999). In June 1998, these magnates "pledged $100 million in challenge grants for voucher programs and announced they would be recruiting local partners to match their contributions" (Meyerson 1999). The Children's Scholarship Fund received enough matching contributions to finance 40,000 four-year scholarships for the 1999-2000 school year in New Orleans, Los Angeles, Kansas City, Philadelphia, Dallas, Chicago, Minneapolis/St. Paul, Miami, New York, and the states of Michigan and Arkansas (Fuller and others 1999; Meyerson 1999). Most of the lottery winners were expected to choose Catholic elementary schools, with average tuition of about $1,500.

By April 1999, low-income parents of 1.25 million children had applied for these scholarships.

According to Terry Moe, Stanford University professor and voucher advocate, parents who sign up their children for scholarships are not necessarily dissatisfied with public schools but are expressing a "large, pent-up demand" for a kind of education they could not otherwise afford (Archer, April 28, 1999).

Despite disclaimers by Forstmann, who says he supports public education but wants to encourage competition, many leading educators (such as American Federation of Teachers President Sandra Feldman) detect public-policy motives and an anti-public-education slant to private-scholarship campaigns. CEO America, which has given $50,000 grants to help launch private scholarship plans in half a dozen cities, also lobbies strongly for public voucher plans (Archer, May 28, 1997).

As magnet-school parent Jacobson noted, large waiting lists for scholarships raise questions concerning the limits of private/parochial-school capacity and of parental and charitable resources. In 1997-98, 200 scholarships in Milwaukee's PAVE program (see above) went unused by financially strapped parents who failed to raise matching funds (Archer, May 28, 1997).

Philanthropic organizations might be challenged to spend $30 billion yearly to finance low-end private education for the 20 million children eligible for free or reduced-price lunches (Meyerson 1999). But 10 percent of these children could attend private schools at a cost of $3 billion yearly—a not unreasonable sum "in a country with $150 billion in annual charitable giving" (Meyerson 1999).

Program Evaluations: New York and Other Cities

Paul Peterson's study of New York City's privately funded School Choice Scholarships Program (see above) found consistent, generally positive results regarding inclusion of low-income families, parent satisfaction and involvement, parental marital status and family size, race-ethnicity, and attrition and mobility (Adelsheimer 1999, Peterson, Myers, and Howell 1998). Similar conclusions were drawn from later studies of private scholarship programs in Dayton, Ohio, and Washington, D.C. (Howell and Peterson 2000, Wolf and others 2000).

A booklet by People for the American Way claims there are many inadequacies in Peterson's work. Black children in New York City, for example, showed gains only in sixth grade, not lower grades as Peterson claimed and the averaged score implies.

In the New York study, Harvard researchers found that low-income voucher students "in grades four and five who attend private schools score higher in math and reading tests after one year than do students in the control group" (Peterson 1999). Also, parents report improvements in school climate, fewer disruptive events, greater home/family communication, and more stress on homework completion in private than in public schools.

The Harvard researchers' third-year study showed significant gains in educational achievement by black students who took advantage of New York City's privately financed scholarships to attend private schools (Mayer and others 2002). After three years in the program, the black students' composite test scores (combining math and reading) were 9.2 percentile points higher than the scores of their peers in public schools. "Impacts of a voucher do not vary significantly by grade level," the researchers say. No effect of the voucher program was found for Latino students, however.

The Harvard study of the CEO America-financed Edgewood Horizon Scholarship Program in San Antonio (see above) drew similar conclusions about low-income families' participation, minority representation, and parental satisfaction with private schools (Peterson 1999). The study also documented modest achievement-test gains compared with public-school counterparts.

Although the Edgewood program did not "cream" students (90 percent of district students were poor enough to qualify for scholarships), parents who got vouchers are better educated and had higher aspirations for their children (Archer, September 29, 1999). Horizon reports that over 100 students who had been offered vouchers did not use their scholarships; many may be "in limbo" because no school would accept them (Archer, September 29, 1999).

An investigation by a University of Texas (Austin) graduate student revealed that the CEO-America program sponsors targeted selected students and that parents used vouchers primarily to support religious education for their children (Mandell 1999). Problems arose with private transport, additional costs for books and uniforms, mandatory participation in fund-raisers, and lack of federal lunch programs. Mandell also found that several Edgewood schools were high-achieving, and that both voucher and public-school parents interviewed seemed satisfied with local public schools.

Jay Greene's (2001) investigation of a Children's Scholarship Fund program in Charlotte, North Carolina, turned up positive results for students using a scholarship to attend private schools. Choice students scored 5.9 percentile points higher in the Iowa Test of Basic Skills math section and 6.5 percentile points higher in the reading section after one year than their public-school counterparts. Greene found smaller classes, minimal creaming and dumping, and high satisfaction levels among parents and students (mostly minority), despite the prevalence of "poorly funded, amenity-starved" facilities and lower teacher salaries.

Possible Benefits for African-American Students

According to a comparison of test results for scholarship programs in three cities (New York City; Dayton, Ohio; and the District of Columbia), African-American students may have the most to gain from private scholarship programs (Howell and others 2000). Considering the three cases together, researchers found positive effects for school vouchers "only on the average test performance of students from African American backgrounds. Black students who switched from public to private schools in the three cities scored after two years, on average, approximately 6.3 percentile points higher on the Iowa Test of Basic Skills than comparable blacks who remained in public schools" (Howell and others 2000).

The research "also shows that the benefits are far greater in mathematics than in reading" (Archer, March 8, 2000). Black voucher students in grades 6-8 actually had slightly lower reading scores than did their public-school counterparts. Results also suggested it was "harder for middle-school students to adjust when transferring schools than for younger children" (Archer, March 8, 2000).

Researchers could not explain why voucher students from other ethnic groups did not experience similar benefits from transferring to private schools. It is also difficult to know whether achievement gains for black students would emerge in large-scale voucher experiments (Goldhaber 2001).

Tax Credits and Deductions

Support is building for tax assistance for education costs, despite a long string of Congressional rejections of bills (since the late 1960s) that were designed to give families tax breaks on various private- or public-school expenses. The Bush Administration's budget plan for fiscal 2003 calls for a federal income-tax credit of up to $2,500 for families wanting to transfer their children out of public schools identified as failing under criteria in the Elementary and Secondary Education Act. Taxpayers could use the credit to pay for half of the cost of tuition, fees, and transportation (for the first $5,000 in such expenses) incurred in sending their children to private or different public schools (Robelen and Walsh 2002).

Taxpayer savings can come in two forms: a tax credit directly subtracted from the tax bill and a tax deduction—an indirect reduction of tax liability by lowering net taxable income (Fuller 2001). Both arrangements provide aid to private and church-related schools in a less direct way than do voucher plans (Elam 1999).

In 1998, the Phi Delta Kappan/Gallup Poll began asking respondents what they thought about proposals for state-legislated tax credits that would permit parents who send their children to private or religious schools to recover total or partial tuition expenses. In 1999, the public favored tax credits to cover all tuition expense (75 percent in favor to 41 percent opposed); approval soared to 65 percent for the "partial tuition" question.

Groups most enthusiastic about tax credits include public-school parents (79 percent) and public-school parents with "average" or underachieving kids (83 percent). Those who oppose tax credits are people 50 years or older and those with no children attending public schools. These same respondents, however, expect high accountability standards and liberal admission practices from private schools receiving public funds.

State Legislation

Since 1997, Minnesota taxpayers have enjoyed "income tax-credits of up to $2,000 per family to pay for computer equipment, tutorial services, and other educational costs" excluding private-school tuition (Johnston 1997). Although a 1971 Minnesota tax credit was overturned by courts in 1974, a 1955 tax-deduction law has withstood Supreme Court scrutiny and is still in effect. In the late nineties, the program was revamped to include increased deduction levels and an education tax credit (Fuller 2001; Johnston 1997).

Despite numerous challenges, Iowa has retained a 1987 tax credit/deduction of $50 for offsetting tuition or textbook expenses (Fuller 2001). In 1997, the law was revised to include a $250 tax credit, removal of a $45,000 income limit, and public-school extracurricular activity costs (Ziebarth 1999).

In 1997, the Arizona legislature enacted a $500 tax credit for contributions to charitable organizations that provide private-school scholarships or grants to nondiscriminatory private and parochial schools, "as well as a $200 credit for extra-curricular expenses" (Fuller and others 1999). In January 1999, the Arizona Supreme Court upheld the tax-credit bill, which had been challenged a year earlier by the Arizona Education Association (Fuller and others 1999). In October 1999, the U.S. Supreme Court declined to consider a subsequent AEA appeal of Arizona's tax-credit scheme (Walsh, October 13, 1999).

In September 2001, two Washington groups issued "dueling reports... on Arizona's 4-year-old tuition tax-credit program (Bowman 2001). The Cato Institute, free-market think-tank, praised the program for offering parents choices while saving taxpayer dollars; the People for the American Way criticize the program for not being based on need and being aimed primarily at kids already attending private schools. From 1998 to 2000, "Arizona's tax credit generated roughly $32 million for more than 30 scholarship organizations" and subsidized 19,000 (private) scholarships (Bowman 2001).

In Florida, the House approved a measure that "would allow corporations to redirect up to 75 percent of their corporate income taxes to nonprofit organizations that award scholarships to low-income public-school students" (Sandham 2001). Students could get up to $4,000 to cover tuition at private schools, including religiously affiliated ones. The Senate has proposed a similar measure. If approved by Governor Jeb Bush, either measure could extend a program now offering taxpayer-financed tuition to students attending "failing" schools for two out of four years. About 12,000 Tampa students are on a waiting list for scholarships from Children's Scholarship Fund—a program that could benefit from the proposed legislation (Sandham 2001).

Comparing Voucher and Tax-Credit Programs

In a comparison of vouchers with tax-credit programs, Coulson (2001) favors tax credits as most equitable and effective at implementing market-driven freedoms and incentives. He claims that tax credits offer "greater resistance to new regulation," decrease "the risk of fraud and corruption," and avoid "problems arising from state funding of religious schools." According to Coulson, universal voucher programs "effectively guarantee funding to all needy families, but dramatically increase the risk of government intervention." Targeted programs would serve the poorest families, but provide financial disincentives for middle- and upper-income families to select private schools.

Tax Subsidies: Access, Equity, and Policy Issues

Like voucher advocates, tax-subsidy proponents say that providing state aid to parents, not school bureaucracies, will mobilize competitive market forces and improve overall educational quality (Fuller and others 1999). However, instead of "targeting aid to low-income families," tax credits "usually benefit parents with significant tax liabilities," and they require a sophisticated understanding of tax law. Tax deductions are even more problematic, since most families do not itemize deductions.

According to the report by Policy Analysis for California Education, it is difficult to predict how families will react to tax deductions or credits. A 1985 Darling-Hammond study found that "the deduction does not appear to be a powerful tool for equalizing school choice-making ability" (Fuller and others 1999). Data from Iowa and Minnesota (tax-subsidy states) show that private-school enrollment has actually declined slightly each year from the mideighties to the late nineties.

Tax subsidies will not necessarily increase public/private school competition, as claimed by proponents (Fuller and others 1999). Instead of "increasing their capacity to educate greater numbers of students," private schools might respond to such incentives by boosting tuition levels and educational quality (Fuller and others).

Frank Monahan (1999), an advocate of tax-credit legislation to benefit Catholic schools, suggests that such legislation must ensure a "broad class of beneficiaries as the best protection against a constitutional challenge in the courts." The tax credit or deduction "should be made available to all citizens who educate their children," in whatever institution, and not linked only to tuition costs. Such approaches have generally failed in state legislatures, because of anticipated high costs.

Tax credits have several benefits, according to Monahan. Granting tax relief to individual citizens will probably stave off heavy government regulation of private schools. Additionally, a strong argument can be made for "tax fairness and justice for nonpublic school parents who both support the local school system with their taxes and save states billions of dollars by relieving them of the responsibility for educating their own children" (Monahan 1999).

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