



DOCUMENT REVIEWED:	–How School Choice Can Create Jobs for South Carolina”
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### **Summary of Review**

The South Carolina Policy Council Education Foundation report, *How School Choice Can Create Jobs for South Carolina*, argues that school choice, in the form of vouchers to attend private schools, would create significant job opportunities in five poor, rural counties of South Carolina. The report, however, relies almost exclusively on results of an earlier study that has significant limitations in its methodology and execution, rendering its findings unreliable. The report also introduces questionable assumptions while extrapolating these findings to the five focus counties—assumptions that drive the outcomes but are unlikely to hold in practice. As a result of its uncritical acceptance of an earlier flawed study and in its introduction of additional untenable assumptions, the report offers findings that are unlikely to be valid and is of little use in informing policy-makers and the public about the effects of vouchers.

## Review

### **I. INTRODUCTION**

A new report, *How School Choice Can Create Jobs for South Carolina*,<sup>1</sup> written by Sven Larson and published by the South Carolina Policy Council Education Foundation, contends that vouchers would produce significant economic benefits for South Carolina. In particular, the report focuses on poorer rural counties, finding economic benefits in the form of a significant increase in the number of small businesses and private sector employment. Extrapolating results from a recent study finding that places offering school vouchers witness higher rates of entrepreneurship and self-employment,<sup>2</sup> Larson contends that increased “voucher-based school choice” (simply called “vouchers” in this review) can be one significant instrument for addressing the need for greater economic growth in South Carolina’s distressed communities.

Voucher programs, like other school reform efforts such as charter schools and accountability programs, may have effects beyond changes in academic outcomes. In theory, such tangential consequences can be either detrimental (e.g., increasing segregation of students by race or income) or beneficial (e.g., inculcating a sense of morality and citizenship as is sometimes argued to be the case for parochial private schools). This report highlights one such potential effect of voucher programs—on possible entrepreneurial behavior of students who have used vouchers to attend private schools.

On both theoretical and empirical grounds, such a claim seems surprising at first. Theoretically, it is difficult to believe that even if some schools are able to instill a sense of competition and innovation in their students,

such effects will be reflected later in an increased rate of self-employment rather than through other employment prospects. Such an economic boost seems particularly unlikely via self-employment rates at a very young age (ages 16-25 and ages 16-30). Further, the empirical literature suggests that while voucher programs can in principle inculcate a sense of competition, innovation and risk-taking, such effects are likely to be small for most schools.<sup>3</sup> Moreover, the between-school competition that does occur often does not involve increased engagement in productive and innovative practices.<sup>4</sup> Further, the introduction of charter schools in many inner cities has led to decreased enrollments in existing private schools—particularly parochial schools—followed by closures or consolidation.<sup>5</sup> This is probably not the sort of innovation and efficiency that would stimulate local economies.

In this context, it would have been interesting if Larson had explored the strengths and weaknesses of prior research, looking at new evidence to shed light on this important issue. However, the report covers no new ground and its contribution to a meaningful discussion of this particular aspect of voucher programs is minimal. In its uncritical acceptance of an earlier flawed study and in its introduction of additional untenable assumptions, the report offers findings that are unlikely to be valid and is of little use in informing policymakers and the public about the effects of vouchers.

### **II. FINDINGS AND CONCLUSIONS OF THE REPORT**

The new report is very heavily grounded on the analysis and results of a 2008 study Sobel and King, which is discussed later in this review. The report extrapolates the results of

that earlier study to five poor, rural counties of South Carolina (Clarendon, Hampton, Lee, Marlboro and Williamsburg). It also makes additional assumptions, also discussed below, in order to analyze what the presence of voucher programs would mean for job creation and small business in these counties. His results can be summarized through the two following quotations:

In total, a voucher-based school choice program in the counties of Clarendon, Hampton, Lee, Marlboro and Williamsburg could have generated an additional 379 jobs by creating 123 new businesses over the period 2000-2008 (p. 7)

Among businesses with 5 to 9 employees, 36 firms would have been created, generating 231 jobs. In businesses with fewer than 5 employees, the five counties would have seen the creation of 87 small businesses. On average, businesses in this group have 1.7 employees, meaning these firms would have created 148 new jobs (p.7).

### III. THE REPORT'S RATIONALE FOR ITS FINDINGS AND CONCLUSIONS

In the 2008 report that Larson relies upon, Sobel and King analyze whether youth entrepreneurship rates are higher in counties that have voucher programs.<sup>6</sup> They include school voucher programs and charter schools separately in their regression models. Voucher programs are found to create higher rates of youth entrepreneurship—one percentage point higher—while the charter schools do not, relative to traditional public schools.

There are five important areas of concern

about the methodology and findings reported in Sobel and King's article.

*Unexplained Independent Variables.* The two key independent variables—dummy variables for counties that had implemented school voucher programs by 1990 and had charter schools by 1995—need significantly more explanation. In particular, the number of counties that had a school voucher program by 1990 is likely to be exceedingly small. The authors refer to some important voucher programs in footnote 4—including Vermont, Maine, Florida, Milwaukee, Washington, D.C., and Utah. But of these, the programs in Florida, Washington, D.C., and Utah were all implemented after 1990; hence their effects would not be captured in the competition variable used by the authors. The Milwaukee voucher program was officially implemented in 1990. But as Chakrabarti (2008) shows, the competitive effects of the program on public schools in Milwaukee during the first phase (1990-1997) were small.<sup>7</sup>

The cases of Vermont and Maine are a little different. These are old programs. For over a century these two states have had what are known as "tuitioning" programs. These programs provide a voucher to students in small towns that do not have local schools at their grade levels; students may use these vouchers at a school of their choice—either public schools in nearby towns, or nonreligious private schools in-state or even out-of-state. These vouchers are only available to a small number of students.

It is certainly possible that the public school systems close to those small towns are significantly affected by competition for tuitioning students.<sup>8</sup> But lessons drawn from these unique programs and circumstances may have limited applicability to other areas and programs. In this regard, it is interesting to note that the Milwaukee program is often

called the nation's "oldest voucher program," by advocates of vouchers among others, in the sense that it is the first modern program.<sup>9</sup>

Given the above, it appears that the study may have been based only on a small, young voucher program in Milwaukee, plus the older tuitioning programs in Vermont and Maine. In any case, readers of the article cannot determine what other counties might have voucher programs already in place by 1990 or the nature and scale of such programs.

*Weaknesses of the Cross-sectional Data.* The cross-sectional nature of the data that Sobel and King use seems ill-suited to answer their causal research questions. They contend that vouchers improve entrepreneurship in areas where they exist. But even setting aside the other concerns raised here, the causal relationship may be in the opposite direction: more entrepreneurial areas are more likely to adopt voucher programs. Though they argue that they can rule out reverse causality, their diagnostic check<sup>10</sup> is only suggestive.

Consider Table 1 and Table 2 in the Sobel and King article, showing that counties having higher self-employment rates also have lower median household incomes (with coefficients that are significant across all specifications) and sometimes have higher unemployment rates. This illustrates the pitfalls of drawing policy conclusions from simple cross-sectional data with limited controls. The sort of questionable assumptions and assertions made by Sobel and King might in this case lead one to argue (again without substantial basis) that self-employment leads to lower median household incomes. It is possible that self-employment rates are driven by lack of adequate alternative employment opportunities

rather than by innovative ideas and entrepreneurial synergies. Without more information on the earnings of these self-employed people and more details on the job market conditions in these respective counties, it is difficult to say whether it is the pull-in force of starting new businesses or the push-up force of lack of alternate jobs that lead these young people to be entrepreneurs. Accordingly, the cross-sectional dataset used here is simply insufficient, and bias from omitted variables is significant concern.

*Assumptions about Entrepreneurship and Growth.* None of the studies that Sobel and King mention regarding the positive effects of entrepreneurship on growth<sup>11</sup> have ever been published in peer-reviewed academic journals, so it is difficult to ascertain the validity and robustness of these findings. Other key research, conducted for a panel of OECD countries, finds no evidence linking increases in the self-employment rate to increased economic growth.<sup>12</sup> Further, while the number of self-employed is a possible yardstick of entrepreneurship—as statistical information is often available along the ownership dimension—this yardstick can sometimes be misleading: a relatively high number of self-employed people can either express a high level of entrepreneurship or merely reflect a time lag in economic development (regions beginning to develop have typically higher rates of self-employment compared to regions that are already developed).<sup>13</sup>

*Poor Match between Counties and Districts.* Sobel and King use county-level data on youth self-employment from the 2000 U.S. Census. It is worth mentioning that counties and school districts do not share the same boundaries for most U.S. states, with the exceptions being mainly in the South. Milwaukee County, for instance, includes not just Milwaukee Public Schools, which has a

voucher program, but 17 other (non-voucher) districts.<sup>14</sup> Often the number of school districts in a county is even larger, as in states with more than 500 school districts, such as California, Michigan, New York, New Jersey, and Texas. If school districts with and without voucher policies co-exist within the same county, this may introduce serious bias in the results. And this is likely to be the case since voucher programs, at least in 1990, were only concentrated in a few school districts.

#### IV. THE REPORT'S USE OF RESEARCH LITERATURE

The Larson report's use of research literature is sporadic and selective. The only directly relevant study on this particular question is that by Sobel and King (2008) referred to earlier. The significant omissions in that study make its findings unreliable, however. The Larson report's deference to that study, including its unquestioned acceptance of the main coefficient estimates and transposing them to a particular state and locale, makes its findings of little practical value.

The report also cites, in its concluding section, several studies to support the proposition that vouchers improve student achievement. While some studies on the effect of attending choice schools do indeed find positive effects on student performance, some other studies—equally sophisticated and published in peer-reviewed journals—do not. The author tends to ignore the latter group, contending instead that the educational benefits of vouchers are “widely documented” (p. 1).

#### V. REVIEW OF THE REPORT'S METHODS

Since the report unquestioningly applies the results from the Sobel and King (2008)

study, the shortcomings of the methodology in that earlier study, as discussed above, equally undermine this new report. But there are three additional concerns.

*Failure to Consider Demand.* The report puts too much emphasis on the supply side of the economy, implicitly arguing that entrepreneurship will create its own demand and jobs. However, as the author himself notes, “the state's economy grew 0.7 percent more slowly per year than the national average for states,” and “rural counties did even worse” (p. 2). Further, between 2000 and 2005, private employment declined in South Carolina as a whole by 1 percent (p. 4). Under such circumstances, the results of the Sobel and King study, even if valid for the country as a whole (which is debatable), may not hold for a state like South Carolina which is lagging behind in generating private employment opportunities.

*Unsupportable Multiplier Effect.* The report extrapolates the findings of the Sobel and King study even further, by assuming that self-employment or entrepreneurship—two terms that the report uncritically chooses to use synonymously—has a multiplier effect in terms of the number of people employed. That is, Sobel and King find that voucher programs increase entrepreneurship rates by about 1 person out of 100 (from a base of about 4, so this translates to about a 25 percent increase). But this report stretches it further by assuming that these newly self-employed people would operate as small businesses and generate employment potential similar to existing small businesses in the state (with a separate analysis, using the same methodology, for those employing between 1 and 4 employees and those employing between 5 and 9 employees). That is, the report assumes that small businesses would expand by 25 percent due to voucher programs, and that these will employ people at

the same rate as existing small businesses of the same size. This is a non sequitur. Among other things, new small businesses are unlikely to generate the same employment prospects as existing, older ones, since the latter have—by definition—been in the business for a while.

*Concerns about External Validity.* The Sobel and King results are for the U.S. as a whole. Even setting aside the data and analytic problems noted above, those results are unlikely to hold exactly for a particular state, and even less likely to hold for an unrepresentative five, poor rural counties within that state.

## **VI. REVIEW OF THE VALIDITY OF THE FINDINGS AND CONCLUSIONS**

As pointed out above, the report not only relies on an earlier study (Sobel and King, 2008) which is significantly flawed. It also introduces its own untenable assumptions while extrapolating the results from the earlier study to South Carolina and its poor, rural counties. The results of such an exercise are highly unlikely to yield valid conclusions. Note also that if voucher programs are really successful in improving academic performance of students attending these schools, then this should be most apparent in terms of more immediate outcomes such as increases in test scores, college attendance and college completion. Outcomes such as youth employment and entrepreneurial rates could conceivably also result, but only at a later date. It is interesting to note that as yet there is no consensus in the literature even on the positive effects of school vouchers on academic performance of children using them. (The most recent evaluation of the Washington, D.C., school voucher program found some significant positive effects, but only after the third year of attending a

voucher school, while the recent evaluation of the Milwaukee voucher program, unlike earlier ones, found no statistically significant effects.<sup>15</sup>) Given the contradictory findings of the overall body of research concerning the immediate outcomes, readers would have good reason to be cautious about the claims made here about more indirect outcomes.

It is also not obvious that, if indeed entrepreneurial rates are affected, they would be in the same county: only a fraction of people who attend school in a given county settle down in the same county as adults.<sup>16</sup> In fact, studies have found that college-educated people are more likely to settle down in the state in which they attended college rather than the one in which they grew up.<sup>17</sup> This reality would not be captured in the empirical framework that the authors rely on—regressing self-employment rates of youth aged 16-25 or 16-30 on prevalence of voucher programs in the respective counties.

## **VII. USEFULNESS OF THE REPORT FOR GUIDANCE OF POLICY AND PRACTICE**

The rhetoric of the report and the approaches used suggest a clear goal of championing a positive effect of voucher programs, with little or no concern for providing a careful analysis of the question at hand. This issue—whether voucher programs can stimulate job creation via increased youth entrepreneurship—is of some potential interest. However, the report's methodology is completely inadequate for the purpose, and the report's significant biases and omissions undermine the potential for valid findings. The report does not further our understanding of the issue at hand and is of little, if any, help in guiding policymakers, educators or the public.

## **Notes and References**

- <sup>1</sup> Larson, S.R. (2009, Dec. 18). *How School Choice Can Create Jobs for South Carolina*. Columbia, S.C.: The South Carolina Policy Council Education Foundation. Retrieved January 13, 2010, from <http://scpolicycouncil.com/images/SchoolChoice.pdf>
- <sup>2</sup> See Sobel, R. S. and King, K. A. (2008). Does voucher increase the rate of youth entrepreneurship? *Economics of Education Review*, 27(4), 429-438.
- <sup>3</sup> See Belfield, C. R., and Levin, H. M. (2001). *The Effects of Competition on Educational Outcomes: A Review of the U.S. Evidence*. Teachers' College, Columbia University, National Center for the Study of Privatization in Education, Occasional Paper no. 35.
- <sup>4</sup> See Chang-Tai, H., and Urquiola, M. (2006), The effects of generalized voucher on achievement and stratification: Evidence from Chile's voucher program, *Journal of Public Economics*, 90(8-9), 1477-1503.
- <sup>5</sup> See, among others, the following stories.
- Robelen, E. W. (2009, March 4). "Catholic Schools Eyed for Charters," *Education Week* (for Catholic schools in Brooklyn diocese in New York);
- Labbe, T., and Salmon, J. L. (2007, September 8). "D.C. Catholic Schools Eyed for Charters: Turning Over Operation to Secular Entity Proposed to Avert Closure," *Washington Post*, Section A (for Catholic schools in Washington D.C.); and
- Cech, S. J. (2008, February 13). "Catholic Closures Linked to Growth of City Charters," *Education Week* (for nationwide trends in big cities).
- <sup>6</sup> See Sobel, R. S. and King, K. A. (2008). Does voucher increase the rate of youth entrepreneurship? *Economics of Education Review*, 27(4), 429-438. voucher
- <sup>7</sup> See Chakrabarti, R. (2008). Can Increasing Private School Participation and Monetary Loss in a Voucher Program Affect Public School Performance? Evidence from Milwaukee. *Journal of Public Economics*, 92(5-6), 1371-1393.
- <sup>8</sup> See Enlow, R. C. (2004). *Grading Vouchers: Ranking America's School Voucher Programs*. Washington, D.C.: The Milton and Rose D. Friedman Foundation. Retrieved January 10, 2010 from [http://www.friedmanfoundation.org/downloadFile.do?id=35.\)](http://www.friedmanfoundation.org/downloadFile.do?id=35.)
- <sup>9</sup> See Enlow, R. C. (2004). *Grading Vouchers: Ranking America's School Voucher Programs*. Washington, D.C.: The Milton and Rose D. Friedman Foundation. Retrieved January 10, 2010 from [http://www.friedmanfoundation.org/downloadFile.do?id=35.\)](http://www.friedmanfoundation.org/downloadFile.do?id=35.)
- <sup>10</sup> Sobel and King (pp. 433-434) state as follows: "Using probit analysis we regress voucher in 1995 on self-employment in 1990 for all persons 16 and over and find no evidence that reverse-causality is an issue. More specifically, the results of the probit model show that self-employment is statistically insignificant in predicting the presence of voucher programs."
- Sobel, R. S. and King, K. A. (2008). Does voucher increase the rate of youth entrepreneurship? *Economics of Education Review*, 27(4), 429-438.
- <sup>11</sup> The studies that are mentioned are as follows:
- Reynolds, P. D., Hay, M., & Camp, S. M. (1999). *Global entrepreneurship monitor*. Kansas City, MO: Kauffman Center for Entrepreneurial Leadership.
- Zacharakis, A. L., Bygrave, W. D., & Shepherd, D. A. (2000). *Global entrepreneurship monitor: National entrepreneurship assessment: United States of America*. Kansas City, MO: Kauffman Center for Entrepreneurial Leadership.
- Kreft, S. F., & Sobel, R. S. (2005). Public policy, entrepreneurship, and economic freedom. *Cato Journal*, 25(3), 595-616.

Henderson, J. (2002). Building the rural economy with highgrowth entrepreneurs. *Federal Reserve Bank of Kansas City Economic Review*, 87, 45–70.

<sup>12</sup> See Blanchflower, D. G. (2000), Self-employment in OECD countries. *Labour Economics*, 7, 471-505.

<sup>13</sup> See Carreea M. A. and A.R. Thurik (2005), The Impact of Entrepreneurship on Economic Growth, in Zoltan Acs and David Audretsch (ed.), *International Handbook of Entrepreneurship Research*, Springer US, pp. 437-471.

<sup>14</sup> See the “Podunk” Website. Retrieved January 10, 2010 from [http://www.epodunk.com/cgi-bin/localList.php?local=23143&locTGroup=School\\_districts&direction=down&sec=0&qty=18&stateAbbv=&stateName=](http://www.epodunk.com/cgi-bin/localList.php?local=23143&locTGroup=School_districts&direction=down&sec=0&qty=18&stateAbbv=&stateName=)

<sup>15</sup> For Washington DC, see Wolf, P., Gutmann, B., Puma, M., Kisida, B., Rizzo, L. & Eissa, N. (2009). *Evaluation of the DC Opportunity Scholarship Program: Impacts After Three Years*. U.S. Department of Education, National Center for Education Evaluation and Regional Assistance, NCEE 2009-4050. Washington, DC: U.S. Government Printing Office. Retrieved January 10, 2010 from <http://ies.ed.gov/ncee/pubs/20094050/>

Stanford professor Martin Carnoy reviewed this report for the Think Tank Review Project: Carnoy, M. (2009). *Review of “Evaluation of the DC Opportunity Scholarship Program: Impacts After Three Years.”* Boulder and Tempe: Education and the Public Interest Center & Education Policy Research Unit. Retrieved January 10, 2010 from <http://epicpolicy.org/thinktank/review-evaluation-dc-opportunity>

For Milwaukee, see Greene, J. P. & Marsh, R. H. (2009, March). *The Effect of Milwaukee’s Parent Choice Program on Student Achievement in Milwaukee Public Schools*. University of Arkansas, Department for Education Reform. Retrieved January 10, 2010, from [http://www.uark.edu/ua/der/SCDP/Milwaukee\\_Eval/Report\\_11.pdf](http://www.uark.edu/ua/der/SCDP/Milwaukee_Eval/Report_11.pdf)

University of Colorado at Boulder professor Greg Camilli reviewed this report for the Think Tank Review Project: Camilli, G. (2009). *Review of “The Effect of Milwaukee’s Parental Choice Program on Student Achievement in Milwaukee Public Schools.”* Boulder and Tempe: Education and the Public Interest Center & Education Policy Research Unit. Retrieved January 10, 2010 from <http://epicpolicy.org/thinktank/review-Effect-Milwaukee-Parental-Choice>

<sup>16</sup> A study by the U.S. Census Bureau found that *within a single year* – between March 1999 and March 2000 – more than 13 percent of all people aged 20-29 years moved to a different county. In fact, the report highlights the fact that young adults are particularly mobile due to their relatively higher rates of marriage, childbirth, and job changes. See Schachter, Jason, Geographical Mobility: March 1999 to March 2000, U.S. Census Bureau Current Population Report, May 2001, <http://www.census.gov/prod/2001pubs/p20-538.pdf>

<sup>17</sup> Figlio and Rueben (2001) show that in the cases in which a student attends a college out of state, college students are more likely to remain in the state where they attended college than return to the state in which they graduated from high school, see Figlio, D. N. and Rueben, K. S. (2001). Tax limits and the qualifications of new teachers. *Journal of Public Economics*, 80(1), 49-71.

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