

# Balancing the Equation

Supply and Demand in Tomorrow's  
School Choice Marketplaces



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APRIL 2015



A M E R I C A N   E N T E R P R I S E   I N S T I T U T E

## Executive Summary

School choice is an education reform premised on a simple proposition: give families more choices, and they will find schools that best fit their children's needs. In short, school choice aims to create a marketplace of schooling options. School choice programs will succeed or fail based on how well they are able to create this marketplace and how deftly they can overcome issues on both the supply (schools) and demand (parents) sides of the school choice equation.

Over the past several years, we at the American Enterprise Institute (AEI) have been working to come to a more sophisticated understanding of both the demand and supply sides of school choice marketplaces. This report is a summary of what we have learned and a road map for those hoping to improve the design and efficacy of school choice programs in America.

Improving the demand side means collecting and disseminating better information for parents. This paper offers several lessons to keep in mind:

- *Parents tend to follow Maslow's hierarchy of needs when selecting a school.* They first want to know if it is safe, then about academic performance, then about all of the other things that the school offers to help make their child a more well-rounded individual. Test scores can tell us one important part of what parents are looking for, but parents need more and wider information to make an informed decision about their child's school.
- *School report cards are useful, but parents greatly value the opinions of other parents.* Finding ways to include the thoughts of parents, by allowing for star ratings, comment sections, or easy sharing via social media can help ensure information is put to use.

- *Parents need help advocating for programs that help their children.* Many school choice programs are designed specifically to help low-income families, a demographic group that is often disenfranchised from the political process. Organizations that want to help parents select schools should also think about how they can help connect parents with the political process to ensure that school choice programs are able to continue.

Improving the supply side means creating the conditions that help new schools open and good schools scale. Three key forces shape the supply-side response of schools to school choice programs:

- *Financial capital.* Schools need access to financial and human capital. At current funding levels, voucher and tax credit scholarship programs do not provide enough money to finance new buildings, substantial technology purchases, or any of the other upfront costs that come with starting or expanding a school. Designated line items in state budgets, traditional bond-granting authority, and social impact bonds can help cover the high upfront capital costs associated with starting or expanding a school.
- *Human capital.* New schools need new teachers and leaders. The skill set that will lead to success in a school participating in a school choice program is not necessarily the same skill set that would lead to success of a traditional public or private school. New programs must emerge to help cultivate the unique skill set needed to lead and work in schools of choice.
- *Regulation.* Regulations for school choice programs must be designed with the understanding

that they are regulating a marketplace, not a monopoly. A modified British inspectorate model, “chartering” private schools, or integrated accreditors are all market-friendly regulatory models that could help ensure that children are protected without stifling innovation.

Understanding how to balance the school choice equation dramatically increases the likelihood that school choice markets will grow, thrive, and help more children access a high-quality education.

## Balancing the Equation: Supply and Demand in Tomorrow's School Choice Marketplaces

School vouchers, tuition tax credit scholarships, education savings accounts, and charter schools are predicated on the idea that giving families more choices will create more opportunities for them to find a school that best fits their child's needs. This parental demand, the theory goes, will drive a supply-side response, with new and better schools cropping up to educate children. Schools will compete for students and will differentiate to offer unique services to set themselves apart. School choice, therefore, will create a marketplace.

But school choice is not guaranteed to succeed. The extent to which it will depends on how well it is able to create a functioning marketplace where the demands of parents are matched to the supply of schools. If barriers exist for schools to enter the marketplace, or if financial or regulatory hurdles make participation not worth their while, fewer options will be available for students to choose from. If parents cannot access information on schools to help them differentiate schools' offerings and performance, the central drivers of quality and diversity will be hamstrung.

To create such a marketplace, the school choice movement has a lot of work to do. For example, private school choice programs were dogged for years by too much demand and not enough supply (that is, more students wanted vouchers than the state could make available). Private schools had seats for students, if students could get help paying for them. Now, for the first time, we run the risk of having more students with vouchers than schools that can serve them. In 2014, the Friedman Foundation for Educational Choice estimated that there were 41,000 seats available for voucher students.<sup>1</sup> In the 2014–15 school year, 29,148 Indiana students applied for vouchers, growing from 3,911 students just four years ago. The system is on track to bump up against the total number of available seats in the near future.<sup>2</sup> It is a brave new world.

As school choice programs grow, mature, and become a central part of a city's or state's education system (not just a boutique option for a small percentage of students), the questions policymakers and advocates ask about these programs will need to evolve. Questions of whether or not vouchers or tax credits "work" are becoming less important than understanding how they work and what can be done to make them work better. Although potential exists for a real marketplace to flourish, markets do not emerge from the ether. They exist within the context of laws and regulations and interact with communities, private organizations, and individuals. For the market to thrive, we have to understand how these forces interact, how they can work together to encourage new schools to enter the marketplace, and how they can allow quality schools to participate in choice programs and scale up their operations. Last but not least, we have to understand how to help inform families so that they make the best choices about their child's education.

Over the past several years, we at the American Enterprise Institute (AEI) have been working to come to a more sophisticated understanding of both the demand (parent) and supply (schools) sides of school choice marketplaces. What follows is a summary of what we have learned and some recommendations for policy leaders and advocates on how to think about school choice marketplaces of the future.

### The Demand Side

Markets work best when consumers have high-quality information.

Choosing a school is not easy. Parents must weigh numerous competing interests: Is the school safe? Does it offer a quality education? Will it instill the values I

want my child to have? Will it push my child to be the best he or she can be? Does it have a vibrant community or quality extracurricular activities that will allow my child to be involved in nonacademic pursuits? Is it easy to get to, particularly if my child will have to use public transportation? Do the leaders appear to know what they are doing?

People are not born with the ability to perfectly weigh each of these factors. But school choice programs can make it easier for families to get the information they need. They can also make choosing easier by engineering applications and assignment strategies to maximize the likelihood that families will get into the school that best fits their needs.

Complicating this already difficult situation is the fact that many nascent school choice programs are in a politically precarious position. Families need to learn to advocate for themselves or risk losing the benefits school choice programs provide. This is doubly challenging because most school choice programs target low-income families, who are statistically less likely to participate in politics than their middle- and upper-class peers.

Luckily, groups across the country have been working both to develop means to disseminate useful information to parents and to organize parents to advocate for their child's education. It has been a bumpy road, but throughout the process, the organizations and the scholars who have studied parents of choice students have learned several important lessons for advocates to heed. We can group the lessons learned into three categories: information, organizing, and changing mind-sets.

**Information.** The question is simple: how do we provide families with the information that they need to pick the school that best fits their child's needs? The execution of this concept is much more complicated. First, we must determine what information is most important to parents. Then we must determine how best to present that information. Luckily, research has developed answers to both of those questions, and some organizations are working to spread that information far and wide.

What information is important? Based on extensive focus-group research with families participating

in school choice programs, researchers Thomas Stewart and Patrick Wolf argue in *The School Choice Journey* that families tend to follow Maslow's hierarchy of needs when it comes to what they want out of their child's school.<sup>3</sup> First, families want to know if the school is safe. As you might imagine, it doesn't really matter how strong the academic program of a school is if a student is worried he or she will be harassed or threatened while at school. After determining that a school is safe, parents want to know about the academic program of the school. They want to know if the curriculum is rigorous and the school is challenging. In examining the choice-rich New Orleans market, Douglas Harris and Matthew Larson found similar results. While families' first-order concern was academic quality, many families were interested in extracurricular activities like band and sports, particularly for high school students.<sup>4</sup>

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The information that families need to choose the best school for their child falls into four buckets. First, families need to know about *the basic logistics of attendance*. Where is the school located? Does it provide transportation? What grades does the school offer? Next, they need to know about the *culture and character of the school*. Is it safe? Does it have a particular ethos, religious orientation, or pedagogical philosophy? Third, they need to know about the *academic program*. How well are students performing? Are they learning what they need to each year? Are they graduating and moving on to bigger and better things? Finally, they need to know about the *extracurricular activities and social elements* of the school that will help make their child a well-rounded individual.

What's more, parents want information from reliable sources. Jon Valant conducted a series of experiments that varied the types of information made available to parents and found that families trusted independent

third-party providers of school information more than they trusted government sources, but they trusted fellow parents more than both of those other sources. Valant referred to parent opinions as “stunningly influential.”<sup>5</sup> When parents saw two positive comments from other parents in a school report card rather than two negative comments, it moved their A–F assessment of a school up two-thirds of one letter grade.

The complexity and amount of necessary information create significant, but surmountable, hurdles for those hoping to better inform parents. Parents need a lot of information, and presenting this information in a way that conveys what is necessary without overloading them is key. Organizations like GreatSchools (which I will discuss) are currently hard at work balancing these factors.

How do we spread information? Given what we know about the information families want, there are two clear outlets for disseminating school data: school report cards and parent social networks. Each can help ensure that parents have the necessary tools to make the best possible decisions for their child’s education.

*School Report Cards.* To borrow the parlance of schooling, a detailed report on the quality and offerings of a particular school is a kind of report card. Just like report cards vary from school to school and district to district, the type of information presented to parents and the way it is presented vary widely across the country.

As Rebecca Jacobsen, Andrew Saultz, and Jeffrey Snyder detail in a 2013 *Phi Delta Kappan* article, state-created school report cards range from two pages in length in Wisconsin to as long as 27 pages in New York. Some states roll all of the relevant data into one composite numerical index, like California’s 200–1,000-point scale. Others, like Wisconsin, classify schools into different categories, like schools deemed as “exceeding expectations.” Still others, like Maine and Oklahoma, use an A–F letter-grade scale.<sup>6</sup>

There are several important things to know about school report cards. First, how data are presented and defined matters. Jacobsen, Saultz, and Snyder completed a randomized experiment with more than 1,100 participants that presented the same data in different ways and judged how people reacted. Even though schools rated as an “A,” “90 percent proficient” and

“advanced” meant the same thing, respondents routinely ranked schools that received an “A” higher than schools whose results were reported in the other ways. The same was true on the other end of the spectrum. Schools given a “C” were seen as much worse as those rated “basic” even though the classifications again meant the same thing.

Second, as Valant found, some information is more valuable to parents than others. While government and third-party report cards giving grades, stars, or numerical indices on school performance were important and did affect parental choosing behavior, the reports from other parents were the most trusted source of information on school performance. This seems to suggest that report cards that feature both performance data on schools and reports from parents within those schools would be the most effective way to get information to parents.

The organization at the forefront of school reporting is GreatSchools. Started in 1998 as a guide to schools in Silicon Valley, it has since expanded to provide reports on over 250,000 schools nationwide. GreatSchools.org had 5.4 million unique page views in February 2015 alone, making it the 395th most popular website in the world by traffic, according to Quantcast.<sup>7</sup>

GreatSchools provides several data points for parents. It offers a simplified 1–10 numerical rating based on the state’s student performance data. For the majority of states in the database, this is simply the performance of students in the school on the state’s standardized test. But some states include student growth data, and others factor in additional measures of college readiness.<sup>8</sup> GreatSchools also offers a “community rating” of one to five stars based on reviews submitted to the site and lists clubs, sports, world languages offered, and art and music programs where available.

GreatSchools’s central issue is that it can use only the data that are made available to it. For example, most private schools I searched were unable to have a performance rating because their standardized test scores are not made public. Similarly, if parents have not rated the school or if information on extracurricular activities is not made available, prospective families have nothing to reference in those categories.

The Foundation for Excellence in Education is working to improve the data that organizations like GreatSchools can use and the way in which states choose to

make data available to parents. In 2014, the foundation launched the “My School Information Design Challenge,” a competition to create the best and most user-friendly school report card design. It offered \$35,000 in prize money in an attempt to recruit top data visualization experts to participate. The foundation stipulated that a successful report card would need to possess the very characteristics that research cited here suggests: a high-level summary to give parents a quick takeaway, the ability to deconstruct by grade and drill down into individual elements, visually appealing charts and tables, and the ability to share the information via social media channels to tap into the parental imprimatur that can powerfully shape school decisions.<sup>9</sup> Collaborative Communications won the contest with a brightly colored and visually appealing report card that presented an A–F grade prominently in the upper-left corner, various bar graphs of performance on relevant metrics, and letter grades for individual segments of school performance.<sup>10</sup>

*Social Networks.* In addition to reports on school performance, social networks can also be a powerful tool to make information more widely available to parents. Both GreatSchools, by allowing parents to leave comments and ratings for schools, and the Foundation for Excellence in Education’s scorecards, which can be easily shared via social media, tap into the connections that parents have and the trust they put in fellow parents to give them information on particular schools.

Both of these approaches are great. But it is important to remember that technology is not a panacea for distributing information. Although technology has revolutionized how middle- and upper-class individuals access information on the consumer goods that they look to purchase, those technologies have not always trickled down to everyone in the community. Many individuals in low-income communities still rely on face-to-face interaction to receive news and opinions, and those hoping to spread information about schools in low-income communities will have to do the shoe-leather organizing, convening, and meeting that is necessary to get reliable information to families.

My colleague Andrew Kelly highlights several such efforts.<sup>11</sup> Most education reform advocacy organizations that directly engage in organizing parents, like

Stand for Children, Families for Excellent Schools, Students First, and the Black Alliance for Educational Options (BAEO), also help families get information on schooling options. In fact, providing information on schooling options can be a valuable way to connect with and eventually mobilize parents to advocate politically.

BAEO, for example, organizes school tours for prospective families. It hosts information sessions for families at individual schools and in public places where multiple schools can distribute information to parents. Existing research demonstrates that individuals are more likely to act if they are asked to do so by someone they know or identify with.<sup>12</sup> BAEO’s focus on empowering parents to advocate for educational options helps give it legitimacy in predominantly black communities and can give additional credence to its information about schools.

*Other Means of Matching Students and Schools.* Interesting efforts are afoot to lower the transaction costs of choosing a school even more. As Anna Egalite described in a chapter in *New and Better Schools*, some communities are choosing to use so-called “Roth Lotteries” to match students to schools.<sup>13</sup>

Roth Lotteries are named after Alvin Roth, who won the 2012 Nobel Prize in economics (along with Lloyd Shapley) for developing methods to match medical residents with their hospital placements, kidney donors with compatible recipients, and public school students in New York and Boston with schools they prefer. In a school-matching context, the Roth Lottery allows parents to rank their preferences and then uses a multistage algorithm to match students with schools on their preference list while also minimizing unfilled seats.

New Orleans uses a Roth Lottery in tandem with its OneApp system. Parents are able to submit an application online, at any participating school, or at a designated parent resource center. Students are then entered into a lottery for seats in those schools. Priority in the lottery is given to students with siblings in the school or who live in the school’s geographic zone. The algorithm then sorts students based on their preferences and priorities into available seats. Participants in the lottery include traditional public schools, charter schools, and private schools participating in the state’s voucher program.

There is preliminary evidence that such systems effectively match students with their preferred schools. According to OneApp's annual report, 96 percent of students with sibling priority were placed in schools with their siblings, 96 percent of students who wished to attend a school in their geographic area and ranked at least three schools in that area as their top priority were assigned to a school in that area, and 80 percent of students were placed into one of their top three options. If families listed only one school, they had a match rate of 69 percent, but if they listed four or more schools, they were matched to one of those schools at a rate of 93 percent.<sup>14</sup>

There is a downside to single application systems, though, that should not be overlooked. When picking schools is as easy as checking a box, it may not encourage the type of reflection some parents might need to truly ask themselves, "Will my child thrive in a no-excuses environment?" or "Does this school really offer what I want?" Finding a school can be a difficult and onerous process, but it can help families better understand what they want in schools and get a broader picture of the diversity of available school options. While it is important to try to match students to schools efficiently, if the matching process causes large numbers of students to end up in a school that is the wrong fit (and be unsuccessful or wind up transferring), that is a problem.

**Organizing.** It is important to recognize that advocates of school choice need to do other things to help participating parents. The programs that provide a child with a spot in a charter school, a voucher, or a tax credit scholarship arise out of our political process and therefore could be repealed or altered in detrimental ways. Parents of children in school choice programs not only need to participate in the programs; they also have to fight for them.

In *Turning Lightning into Electricity: Organizing Parents for Education Reform*, Andrew Kelly maps out the landscape of parental advocacy in education reform.<sup>15</sup> Through a series of site visits and in-depth interviews, he details the incredible cost—in terms of time, energy, and money—of organizing parents, many of whom have been disenfranchised by the political system for most of their lives.

Kelly's story is not all doom and gloom, though, particularly for supporters of school choice. School choice has an advantage over more esoteric topics like standards-based reform and teacher evaluation when it comes to organizing because it actually creates a constituency. Parents whose children receive vouchers or get a seat in a great charter school have a direct and clear stake in the success of the program. Organizing then becomes less about trying to get parents interested in or informed about some topic of education and more about simply helping them amplify their voices to advocate for the best interests of their children. The costs are still high, and the necessary infrastructure for organizing and mobilizing parents is nowhere near as robust as needs to be, but school choice programs at least provide the seeds of political involvement for parents that outside organizations can then cultivate.

**Changing Mind-sets.** One of the most striking lessons from *The School Choice Journey* was the transformation Stewart and Wolf witnessed in the families that they studied. They argue that families who participated in the voucher program had what they called a "clientist" attitude toward government services prior to their participation. They saw themselves as passive participants, forced to take whatever the school or government agency had to offer them.

Participating in the voucher program helped convert families from clients to consumers. No longer did they feel like they lived according to the whims of distant bureaucrats. They had taken their fates into their own hands. What's more, they started to expect more from the schools that taught their children. They realized that they had something that the school wanted (the money represented by the voucher) and if the school did not meet their needs, they could take that money somewhere else.

The ramifications of this transformation are immense. For years, schools have decried a lack of parental involvement as a major impediment to improved student performance. The 2012 High School Dropouts in America survey identified "absence of parent support or encouragement" as the number-one reason high school dropouts gave for dropping out.<sup>16</sup> Disenfranchised parents who have been resigned to taking a client orientation toward schools could be a root cause



of such disengagement. If they do not feel like they can affect change in their child's school, it is not unreasonable to stop trying.

Stewart and Wolf found that empowering families with school choice moved them from clients to consumers. No longer were families content to sit back and accept what was given to them. Parents realized that the voucher attached to their children had real worth for the school and that schools would work with them through any issues they or their children might have to keep them happy and the money flowing in.

Empowered parents saved the DC Opportunity Scholarship Program. As Stewart and Wolf recount, President Obama's 2009 budget would have phased out the program. When families heard about this, more than 1,000 students and parents marched on the US Capitol and rallied outside. Some were even able to testify before the House and Senate about the benefits they received from the program. After two years of tense negotiation, the program was allowed to enroll new students.

### The Supply Side

Even if we are able to empower families with information, help them organize, and change their mind-sets regarding their relationship to public services, it might still not be enough if families do not have good schools to choose from. Making school choice help families is not just about cultivating and refining demand—it is also about increasing supply.

The school choice market is not the first market that has ever been created out of a government monopoly. In the 1970s, airline, trucking, and telecommunications deregulation drew competition into previously monopolized or highly prescriptive marketplaces. After the fall of the Soviet Union, countries from Eastern Europe to Southeast Asia moved control of whole sectors of their economies from government monopoly to market control.

Some markets have worked better than others. Just look at the varied trajectories that Poland and Russia have taken since the fall of the Iron Curtain. In the first two years of the transition to a market economy, Poland's gross national product fell 21 percent,

but Poland is now a European leader in economic growth.<sup>17</sup> In fact, according to the OECD, it achieved the most growth in gross domestic product within the OECD from 2007 to 2012, a time when nations across the developed world slid into recession.<sup>18</sup> Russia, on the other hand, created "markets" that allowed a small number of individuals to strip key industries of their assets, saddling the Russian people with debt while enriching this small number of nascent oligarchs. Today, 110 oligarchs control 35 percent of the total wealth of Russia.<sup>19</sup> If we want schools to be market-driven, we want the market to look more like Poland than Russia.

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*We need to develop a system that spurs the creation of new and better schools.*

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How might we create such a marketplace? We need to develop a system that spurs the creation of new and better schools. Nascent ventures need money and people to operate, and they need to exist within a regulatory framework that does not snuff them out before they even have a chance. Let's dive into each of these components.

**Money.** It hardly bears saying that for a school to operate, it needs access to capital. Almost all private school choice programs fund students at the marginal cost of adding an additional student to an already efficiently operated school. For example, the maximum voucher amount in Indiana, which has one of the largest voucher programs in the country, is only \$4,800 per student in grades 1–8. Sure, if a school has a few empty desks in the back of the class, that money can cover the cost to educate a small number of students, but if a school wants to start from scratch, build a new building, or try something new and different, that amount is simply insufficient.

But the *how* of funding might actually be more important than the *how much*. That is, how money is disbursed to schools, and for what purposes it can be used, might be more important to schools than how much money is provided.

Starting a school requires a great deal of upfront capital. In most states, voucher payments are not disbursed

until several months into the school year, after enrollment counts have been finalized. So if a group hopes to start a school, it needs to purchase (or start paying rent on) a facility; acquire textbooks, computers, desks, and all of the other necessary components; and make the first several payments of salaries before a single dime comes back into the door.

Some organizations are able to raise philanthropic dollars to cover school start-up costs. However, this is not a viable option for every school. Raising money is not free. Schools have to pay fundraising staff or rely on their donated time. They also need access to a base of donors with enough money on hand to defray the cost of starting up a school. Not every school is lucky enough to know those people.

Schools can also get loans; however, as organizations like the Local Initiatives Support Corporation have documented in the charter sector, many lending institutions are unfamiliar with how to price the risk of schools and err on the side of higher interest rates. A 2004 study found that while financiers would never recommend a charter school spend more than 12–15 percent of its per-pupil revenue on debt service, the average charter school at that time spent almost 25 percent.<sup>20</sup>

These factors put a big kink in the hose and stop many schools from being able to open.

We can consider several possible solutions.

- *Budgetary Line Items.* The first and simplest solution is to create budgetary line items at the state level for capital costs at private schools participating in school choice programs. This could take two forms. First, it could simply allow a top-up of funds for capital costs based on some percentage allocation of state funds. If, for example, states give public schools 10 percent of overall per-pupil funding for capital costs, a proportionate amount could be tacked onto voucher awards.

The state could also set aside a pot of money for grants to schools to fund facility expansions. If directly granting money is too tough of a political lift, this pot could be provided as low- or no-interest loans to help schools finance their capital costs.

- *Bond Financing.* States could also create avenues for schools to access bond financing, which

would dramatically decrease the cost of borrowing money for capital expenses. For more than 30 years, the Colorado Educational and Cultural Facilities Authority (CECFA) has issued more than \$5.5 billion in tax-exempt bonds to educational and cultural institutions both inside and outside Colorado. Over the years, it has offered bonds to finance capital purchases for several nonprofit organizations, including the National Jewish Federation Bond Program and the Association of Christian Schools International. In 2012, the Catholic Educational Capital Corporation accessed \$9 million in funds from the CECFA and offered them to Iona Prep, an all-boys high school operated by the Christian Brothers in New Rochelle, New York, to purchase an elementary school. According to the National Catholic Register, the school is expected to pay 2.09 percent in interest over the lifetime of the bonds instead of a standard rate of more than 5 percent. This favorable rate stands to save the school \$1.8 million.<sup>21</sup>

- *Social Impact Bonds.* A third avenue for innovative financing is social impact bonds, which some states have already used to reduce recidivism, homelessness, and unemployment. Social impact bonds give private investors an opportunity to provide the start-up capital for a program that, if successful, will ultimately provide a social good at a lower cost than what the government would pay. If the program is successful, the investors not only get their money back but also are rewarded with a share of the savings.

Depending on how one classifies savings, there is the potential for substantial returns. When Patrick Wolf and I completed a cost-benefit analysis of the DC Opportunity Scholarship Program, we synthesized the work of health, crime, and labor-market economists and found that the program produced about \$87,000 in public benefits for each additional high school graduate created by an educational program. That figure includes increased taxes (because high school graduates make more money than non-high school graduates) as well as decreases in costs from social welfare (because high school graduates are less likely

to commit or be the victims of crimes and less likely to end up on public assistance). Even 10 percent of those benefits would represent a substantial return on investment.

But it is important to note that most private school choice programs cost less than their traditional public alternative. In that same analysis, we argued that the average Opportunity Scholarship Program student would likely cost the DC Public Schools around \$14,000 per year. With a maximum voucher value of \$7,500, each of those students represented a potential savings of \$6,500.<sup>22</sup> Combine some return on those savings to a fraction of the increased benefit, and we have a substantial upside possibility for social investors.

There is a second important piece of the *how* of school financing. This includes not just how the money can be used, but also how the schools can count on receiving it.

When a student expresses interest in applying to a Notre Dame ACE Academy in Arizona, a representative of the school has to slap a large flowchart on the table to determine what funds are available to help support that child's education.<sup>23</sup> Because each of the state's four school choice programs have different admission, reimbursement, and reporting criteria, participating schools have an incredible administrative burden in trying to access public funds. Imagine the parent's confusion. Imagine the administrator's frustration. It risks pushing both families and schools out of the program because they do not want to contend with the deluge of paperwork.

One of the great strengths of private schools, particularly when it comes to delivering quality education at lower costs, is their relatively thin layer of administration. Many small Catholic schools have a principal and a secretary, and perhaps some of the parish bookkeeper's time can also be assigned to administrative tasks. The more complicated it is to access dollars from private school choice programs and the more onerous the reporting process is, the less likely it is that these schools will be able to participate.

So what can be done about this?

- *Common, Online Application for Schools.* Particularly for states that have multiple overlapping

school choice programs, standardizing paperwork could do a great deal to ease administrative burdens. States could create an online portal whereby schools enter the student's information (age, family income, and so forth) and the program kicks back the subsidies the child is eligible for. After weighing the various options, the school and family could select the appropriate scholarship, which would then be administered to the school.

- *Multiyear Funding Guarantees.* Given that school choice programs are created by our nation's often-fractious political process, policymakers can do only so much to create the type of funding predictability that schools desire. Shy of amending state constitutions to enshrine programs into perpetuity, every legislative session will see some fights over a state's limited resources.

However, states could create multiyear funding guarantees that would promise schools that if a child is admitted, the state will supply a fixed amount of funding for the remainder of that child's education. This would minimize the risk of taking on new students and justify large capital expenses by providing at least some predictable funding for several years. This might decrease the total number of scholarships available in a given year (as swaths of money become earmarked for students' future education), but it would ensure that every participating student could see their education at that school through to the end.

**People.** For any enterprise to thrive, it needs to recruit and retain high-quality staff members. In schools, this is even more crucial. Years of research tells us that teachers are incredibly important.<sup>24</sup> If schools of choice are going to thrive, they need to find high-quality teachers.

What is vexing for those, like me, who see private schooling as an opportunity for innovation is just how similar in operation most private schools are to most public schools. While perhaps lighter on administration, private schools tend to be staffed in similar ways to public schools. For example, Catholic schools and public schools have roughly comparable average student/teacher ratios (13:1 for Catholic schools and 16:1 for public schools<sup>25</sup>). Many major dioceses still use

step-and-lane pay scales that base teachers' salaries on longevity and postgraduate degrees, instead of quality.<sup>26</sup> Many private school networks use defined-benefit pensions or require their teachers to get certified. In short, many of the rigid labor-market policies that reformers decry in the public sector have bled into the private sector, even though most private school teachers are not unionized and do not fall under the state laws requiring particular compensation structures.

What gives?

One explanation for this phenomenon is that most private schools get their teachers and leaders from the same programs that prepare public school teachers. They are never taught another way. Moreover, even programs housed in private universities still follow the state's preparation program so that their graduates can get licensed. This prepares teachers and leaders who will be working in one type of school (private schools) to succeed in a totally different type of school (public schools). As such, it leaves out an incredible amount of knowledge that these professionals will need to succeed in their unique environment.

How are they different? On the leadership front, private schools are more autonomous and generally layered with less administration, so an enormous amount of weight is placed on the school leader. He or she must have a firm grasp on finances, legal compliance, and marketing and must act as an instructional (and in religious schools, spiritual) leader. Quite a tall order.

Teachers also have their challenges. If schools are going to innovate, teachers have to make it happen. If schools want to use technology, employ innovative staffing models, or rejigger the school day or year, teachers will have to go beyond what their traditional preparation has provided them.

If schools of choice are going to succeed, new pipelines for teachers and leaders must be created. These pipelines could take three forms.

*Private Schools Can Create New Avenues for Nontraditional Educators.* Private schools are not bound by the same licensure and certification rules that often tie the hands of public school leaders who want to get subject-matter experts or other nontraditional educators into classrooms. So long as the regulations governing school choice programs do not create more

requirements for teachers or leaders, they should use their flexibility to find the best possible personnel regardless of background.

One way this could manifest itself is if schools could purposely find a noneducator to be a leader and supplement his or her skill set with an assistant principal or lead teacher who could supervise the instructional program of the school. Rather than trying to get an educator who has the necessary skills in law or accounting to keep the school in line with legal and fiscal standards, a school could find a talented lawyer or businessperson and surround that individual with the educators needed to help make curricular decisions.

If a school has a creative leader, it can get creative with its teaching staff. For example, schools could leverage part-time educators from the community who may have subject-matter knowledge or relevant experience. For schools affiliated with local colleges or universities, instructors and students could flow between the two institutions. A college professor who teaches introductory-level coursework could come to the school for a period or two a day to teach, or students could go to the college (or take college courses online) rather than try to develop the capacity within both institutions. The lines between organizations or institutions do not have to remain as rigid as they currently are.

*Philanthropists Can Support the Creation of New Teacher and Leader Preparation Programs.* In one scenario, new teacher and leader preparation programs could be created from scratch. The charter sector offers examples of such institutions. In 2007, a prominent charter school operator in California, High Tech High, created its own graduate school to prepare teachers to teach in its unique, technology-driven environment. In 2008, leaders of several high-performing "no excuses" charter schools in New York launched Teacher U (eventually, the Relay Graduate School of Education), which became the first independent, nonprofit graduate school of education to be credentialed by the state of New York in more than 80 years. In 2012, MATCH Charter Schools founded, and the Massachusetts Board of Higher Education approved, the Sposato Graduate School of Education for teachers in their system of schools.

But there is also the opportunity to create new programs within institutions that do not currently prepare

teachers. In 2008, Rice University created the Rice Education Entrepreneurship Program, which trains aspiring school principals and other leaders in management, accounting, and finance through the Rice University business school. In fact, this is the first principal-prep program in the country to be housed in a business school.

The University of Notre Dame, which does not have an education school, created the Alliance for Catholic Education, which has trained more than 1,200 teachers since 1993 and 230 leaders since 2002.<sup>27</sup> Notre Dame's efforts helped launch the University Consortium for Catholic Education, a collection of 13 Catholic universities that places more than 400 teachers in Catholic schools in 24 states each year. But given that there are almost 6,600 Catholic schools across the country, this is still a very small endeavor compared to what is possible.

Larger institutions can offer a level of support that can be very difficult for start-up or one-off programs to generate.

*Existing Institutions Can Create Private School Teacher and Leader Tracks within Existing Programs.* Rather than start new programs, either as stand-alone organizations or programs within the structure of larger institutions, teacher and leader preparation programs could simply create more tracks for those wishing to work in private schools. Loyola Marymount University has four teacher and leader training programs within its school of education that have worked with the Archdiocese of Los Angeles to place more than 1,500 teachers and leaders in schools serving low-income populations since 2001.

These programs might need a bit of tweaking, specifically to deal with the issues of school choice programs, so perhaps adding a set of courses about school choice programs—how to access their funding, how to follow the appropriate laws, and so forth—could tailor such programs to the needs of those schools.

**Regulations.** In January 2015, AEI Education released a study by Brian Kisida, Patrick Wolf, and Evan Rhinesmith that attempted to survey every private school leader in three “choice-rich” states—Florida, Indiana, and Louisiana.<sup>28</sup> More than 950 principals responded, both from schools that choose to participate in school choice programs and from schools that

do not participate. Given that only 60 percent of private schools in Florida accept students using tax-credit scholarships and only 50 percent of Indiana schools and 33 percent of Louisiana schools accept voucher students, we wanted to know what was preventing more robust participation. Tens of thousands of students in those states want more choices; it is not a time for schools to sit on the sidelines.

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*Layers upon layers of bureaucratic rules  
have accreted on public schools.*

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Kisida, Wolf, and Rhinesmith found chokepoints in both the supply and demand sides of the equation in these three states. Even though 91 percent of schools stated that serving more disadvantaged students was an expressed purpose of participating in the program, school leaders in all three states were generally less satisfied with both the academic preparation and parental involvement of voucher students compared to the school's typical students. Clearly, work needs to be done to help get students up to speed, but work also needs to be done to help parents get more involved and have a greater stake in their child's school.

On the supply side, school leaders expressed fears of increased regulations, disliked the amount of paperwork necessary to participate, and worried about the instability of the program. By and large, they also felt that program dollars were insufficient to educate students with greater needs—the very students they got involved with the program to serve.

The traditional public school system has had more than 150 years to develop regulations to govern its behavior. From seat-time requirements to teacher preparation regulations, teacher evaluation systems to school accountability protocols, layers upon layers of bureaucratic rules have accreted on public schools.

The logic behind these regulations makes sense, provided that you accept the idea that there should be a public monopoly on education. If students are required by the government (and, in states with truancy laws, face legal penalties for nonattendance) to attend a particular school, the government has a responsibility to make sure that school is as high quality as possible. In

that area, the government has an effective monopoly over the provision of K–12 education and therefore must regulate accordingly.

Troublingly, it appears that some policymakers and advocates want to graft this system onto schools of choice. In the Indiana Choice Scholarship Program, schools that accept voucher students must take the state test (the ISTEP) and must participate in the state's A–F school grading system. If a school is graded as a D or F for two consecutive years, it can no longer accept voucher students. In the Louisiana Student Scholarships for Educational Excellence Program, schools that accept voucher students must take not only all of the state tests, but also any tests that the district the school resides in administers. Schools have to earn a particular index on the state's accountability system to continue enrolling voucher students as well. In Wisconsin, schools must administer the state test in grades 4, 8, and 10; employ teachers with bachelor's degrees from accredited higher education institutions; and provide 1,050 direct pupil instruction hours in grades 1 through 6 and 1,137 direct pupil instruction hours in grades 7 through 12.<sup>29</sup>

This is problematic for two reasons.

The first is that tools designed to do one thing are often ill-equipped to do something else. Sledgehammers are great for knocking down walls, but they are not great at getting dings out of a car's fender. Regulations for a monopoly can help improve the quality of one product but will be ill-equipped to regulate a competitive marketplace with multiple products.

Traditional public schools are measured by a series of relatively blunt tools. Instructional hours, teacher credentials, and even test scores on state math and reading exams tell us only part of what we want to know about a school's educational quality. There are 100,000 schools in 14,000 school districts across the country. American schools span rural communities, dense urban neighborhoods, mountain ranges, beaches, deserts, and tundras. To get a set of metrics that can tell us about all of these wildly diverse organizations, regulators have to go to the least common denominator. In all cases, we can measure how much time students spend in class. We can look at the credentials of their teachers. We can administer tests in math and reading and can therefore try to ensure the quality of those classes.

Markets, however, have the ability to process much more information than these factors. Rather than rate schools across a small number of easily comparable metrics, parents can rate the relative quality of schools on a wide variety of characteristics and to a standard unique to each family. Maybe some families place higher importance on science, technology, engineering, and math (STEM) preparation, while others want their children to participate in band and theater.

The second problem is regulatory creep. In 1982, Stephen Breyer (now a Supreme Court justice) published *Regulation and Its Reforms*, a magisterial look at regulation and its effects on numerous industries.<sup>30</sup> Most helpful for our purposes was his examination of the National Highway Traffic Safety Administration's (NHTSA) efforts to regulate automobiles. Two key points merit mention.

First, Breyer described the standards-setting process, or the process by which the expectations of a product or industry are created. Regulations are built from these standards. While many think that standards setting and regulation writing is completed by a nimble and impartial body, ready to adjust and adapt as conditions on the ground change, Breyer argues that standards setting is subject to every bit as much deal making as creating laws (if not more) and that the decisions made by standards setters are incredibly durable. He writes:

It is tempting but misleading to think of the standard-setting process as it might exist in the idealized world of the rational policy planner. . . . This description is misleading, because it cannot account for elements that even a cursory description of NHTSA experience suggests are typical of the standard-setting process. The process in practice appears to rely heavily upon precedent for the content of its standards, it is characterized by continued negotiation, modification of proposals, and long delays. Yet its standards, once in place, prove surprisingly resistant to change, even when, as in the case of head restraints, experiences suggest that they are ineffective.<sup>31</sup>

This weighs directly on thoughts about regulating schools. First, the individuals making regulations most likely have some opinions about how schools should look or operate and could even have vested interests in

particular school models or sectors. By too narrowly tailoring what schools are supposed to look like, they risk creating a hostile environment for outsiders hoping to enter a market with new and innovative school models. A second serious risk is that the decisions they make will get set in stone, forcing schools to wedge themselves into the mores and fashions of years ago. With each passing year, scientists produce new knowledge about how the brain works and how children learn. Schools should be free to take advantage of this and change their organization and instruction accordingly, but ossified standards and regulations could stifle such efforts.

Second, Breyer cuts through some of the verbal jujitsu that advocates for regulation often use when they argue that certain regulations are superior to others because they deal with “performance,” not “design.” Breyer writes:

In practice, the notions of “performance” and “design” tend to converge. Congress, for example, insisted that NHTSA write only performance standards. Yet it was not difficult for the agency to write performance specifications that could be met only by a machine of certain design. When NHTSA initially set passive restraint standards, it insisted that manufacturers satisfy performance tests that effectively required them to use airbags. Similarly, it set bumper standards that could not be met by metal bumpers, thereby requiring the use of “soft-face” bumpers. . . . Despite the agency’s theoretical ability to transpose performance and design standards, the underlying tension remains. There is a fundamental tension between flexibility, embodied in a statement of goals that allows maximum freedom to the industry to meet them, and enforceability, which points in the direction of specific, usable, recognizable detail.<sup>32</sup>

This is particularly important in that much of the last 15 years of thinking regarding school regulation has been an attempt to move from design to performance regulations. Rather than evaluate teachers based on credentials, education reformers want to use students’ value-added test scores, administrator observations, and other performance data to evaluate teachers. Rather than judge schools on the amount of money they spend or the number of students they serve, No Child Left

Behind—era accountability systems looked to standardized test results and other measures of student performance to judge how schools were doing.

Advocates for expanding the performance regulations to new schools argue that they will not affect the design of schools. Breyer’s analysis should give us pause.

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chooses to participate.*

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**Toward Better Regulation.** All of the preceding skepticism regarding the regulation of school choice markets should not obscure the need to protect students, families, and taxpayers. Regulation is a part of every marketplace. The key question is: how can regulation be structured to avoid the excesses of the marketplace without stifling the innovation that makes markets such a powerful tool to improve society?

I would like to offer several possible regulatory models.

*A Modified British Model.* One possible solution would be to move to a model like what we see in the United Kingdom. The UK has a diverse set of state-supported schools for children, including what we would consider “private” schools (many religiously affiliated), Free and Academy Schools that function much like charter schools, and more traditional community-based public schools.

All British schoolchildren take the General Certificate of Secondary Education (GCSE) when they are around 16. The GCSE is a series of individual subject tests that measure learning from one- or two-year courses in academic subjects. School-level results from these tests have been published in “league tables” since 1992. The state publishes similar tables for elementary schools, reporting how many 11 year olds reach “level four” or can demonstrate that they can “spell properly, start to use grammatically complex sentences and employ joined up handwriting in English” and “multiply and divide whole numbers by 10 or 100 and use simple fractions and percentages” in math.<sup>33</sup>

Because the state will fund a variety of school options, families can use these data to help make their decisions. Schools also feel pressure to keep their scores up, as they are directly compared to schools all across the country based on these measures.

The United Kingdom pairs these reporting structures with the Office for Standards in Education, Children's Services, and Skills (Ofsted). Ofsted has teams of inspectors that visit schools for evaluative visits, and more frequent visits are prompted by lower performance in the league tables. The inspectors have three goals:

1. To offer feedback to the school principal and teachers.
2. To provide information to parents to aid their decision-making process.
3. To identify schools that suffer from "serious weakness."<sup>34</sup>

There are many things to like here. One is good data for parents to use to compare schools. The second is human judgment as opposed to rote formulas to evaluate schools. But the best lesson is the way that tests are used. Using standardized tests as a trigger for greater scrutiny, not an automatic set of sanctions, is a much smarter way to employ tests as regulatory tools.

Research into Ofsted's system shows promising results as well. University of Sussex economist Iftikhar Hussain found that inspection reports are able to "discriminate between more and less effective schools," even in high-stakes situations. What's more, receiving a "fail" inspection actually leads to an increase in student achievement, particularly for students with the lowest-performing students. He found that the gains from getting a "fail" inspection were larger than those affiliated with moving students to schools with higher average achievement levels.<sup>35</sup>

*"Chartered" Private Schools.* If establishing centralized inspectors and standardized tests is a bridge too far, it could instead be possible to require schools receiving public dollars to enter into performance contracts with the equivalent of a charter authorizer. Each school would negotiate with an authorizer, which could be an independent state board, a university or nonprofit, or

some other entity with the state's imprimatur to direct public funding.

Andy Smarick offers a vision of this in his 2012 book *The Urban School System of the Future*.<sup>36</sup> Each school would be able to negotiate the goals it would be expected to meet with the authorizer—so, for example, a school working to help high school dropouts recover credits or teach English to recent immigrants would not have to demonstrate the same performance as a school for high-performing math and science students.

This would allow schools to have a diverse set of approaches. In places where charter regulators have been more permissive, a variety of schools has emerged. Arizona, for example, is home to the Great Heart charter schools, a set of classically oriented schools that study the great books and rely on what would be considered very traditional pedagogy. The state also hosts the technology-hybrid Carpe Diem schools, which have students working through personalized curricula on computers for a large part of their day. Arizona was also the birthplace of the BASIS charter schools, a set of extremely high-performing college-prep schools. If there is fear that chartering will restrict the number or type of schools, Arizona offers a good case study in fostering diversity.

Still, this model is not without concerns. Across the country, there has been a tendency to overregulate charter schools. Research I completed with AEI's Jenn Hatfield and Elizabeth English found that the average charter application is one-third extraneous, onerous paper pushing that risks stifling innovation and chilling prospective applicants. Smarick's vision would appoint a schools chancellor to oversee all schools receiving public dollars, which could lead to disaster should that individual not share the vision of a diverse, thriving school marketplace. Although a step in the right direction, regulatory creep would still lurk outside the door.

*Integrated Accreditors.* A third path could be adapted from work by the Harvard University Graduate School of Education's Jal Mehta and Johns Hopkins University's Steve Teles.<sup>37</sup> In writing about teacher preparation and evaluation, they called for a system of "plural professionalism" whereby organizations representing various educational approaches or (forgive the pun) schools of thought, would prepare teachers, operate schools,



and have accrediting bodies charged with oversight. A no-excuses school model, for example, might have its own teacher preparation program, schools, and accreditor with state-granted authority to make sure it is living up to the standards of practice established by that set of schools.

Mehta and Teles's argument is that having individuals who don't "buy in" to a particular school's model or philosophy to regulate schools is problematic. If a regulator thinks that no-excuses schools are wrong and harm children, the likelihood that he or she will be able to give a fair appraisal or helpful feedback is slim. By encouraging regulators with deep knowledge and appreciation of how a school of that type is supposed to operate to oversee schools, the ability for those bodies to be helpful, to spot problems, and to help schools improve is greatly increased.

*Standardized Data, with Intervention as Last Resort.* A final idea might simply be to require certain data to be disseminated for the purpose of informing parents, and regulators would jump in only when there are clear threats to the health or safety of children or evidence of theft or fraud on the part of educators.

Families need comparable information to weigh their prospective options, and numerous nationally normed tests like the TerraNova, Iowa Basics, and NWEA can give easily interpretable information to parents. Should schools want to give more information, they can, but they would not be forced to.

Schools would need to provide financial audits to the state to ensure that they are not simply stealing state funding, and they would have to provide evidence of meeting health and safety standards. But beyond that, they would have very minimal interaction with state regulators.

**A Pharaoh Who Knows Not Joseph.** Regardless of what regulatory system states settle on, it is important to not lose sight of what Kevin Hasson brilliantly called "The Pharaoh Effect."<sup>38</sup>

For those of you who don't know your biblical book of Genesis, Joseph, grandson of Abraham, was sold into slavery in Egypt but eventually rose to power and encouraged his brothers and their families to come to Egypt. The descendants of Joseph and his brothers

lived in prosperity in Egypt until a pharaoh arose "who knew not Joseph" and the arrangement that Joseph had with the leadership of Egypt and enslaved the Jews.

The "Pharaoh Effect" is the vulnerability that organizations, and particularly religious organizations, face when they enter into arrangements with the government. While at first there might be comity between the organization and the government, over time individuals might come into the government who do not respect the agreement that the organization had with the government.

Schools could agree to participate in a choice program under a certain set of rules and expectations, only to have those rules change over time. Especially if schools become financially dependent on government dollars, regulators could put them in a bind.

When designing a program, therefore, it is important to try and insulate it from a future "Pharaoh who knows not Joseph." By clearly articulating the rights of families to choose the school that best fits their child's needs and the rights of schools that participate in the program, school choice programs can help ensure that participation does not mean sacrificing the very character that makes schools what they are.

## Conclusion

If man is not to do more harm than good in his efforts to improve the social order, he will have to learn that in this, as in all other fields where essential complexity of an organized kind prevails, he cannot acquire the full knowledge which would make mastery of the events possible. He will therefore have to use what knowledge he can achieve, not to shape the results as the craftsman shapes his handiwork, but rather to cultivate a growth by providing the appropriate environment, in the manner in which the gardener does this for his plants.

—F. A. Hayek, Nobel Prize Lecture, 1974

Imagine for a moment, a world in which school choice policy lives up to our lofty goals for it. All parents, regardless of wealth, might see two or three schools where their children could thrive and would have little to no stress associated with getting their children a

seat. Numerous, diverse options would be available in communities: religious and nonreligious, progressive and classical, STEM and arts, technology-driven and schools that do not even allow students to use computers. Fights over the politics of schooling would be toned down, as those with conflicting opinions would not have to battle to exert dominance over those with whom they disagree. Information would be clear, comparable, and plentiful.

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*Imagination, paired with modesty,  
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This is a future worth working toward, but creating such a thriving, dynamic school choice marketplace will rely on policymakers, philanthropists, and educators working as gardeners, not craftsmen. Tastes of parents are diverse. The number and types of people interested in working in schools varies across the country. There is not one centralized way to capture all of that information and apply it to one system.

We must not lose sight of the fact that how school choice markets are arranged will directly affect who chooses to participate. In clear-cut cases, limiting participation in programs to particular students, for example, will exclude others. But such limiting might also affect the types of schools that choose to participate. If vouchers are made available only to low-income students or students from failing schools, the types of schools that will emerge to meet their needs might be different than if vouchers are made available to all students. Similarly, if programs exclude religious schools or schools with particular pedagogical approaches, the range of options available to parents will be narrowed.

Imagination, paired with modesty, will drive the creation of a better school system. By creating funding mechanisms that grant parents flexibility to choose from a wide variety of education providers, policymakers can set up a garden in which many distinct flowers can grow. By regulating (or weeding, to extend the metaphor) in ways that respect the autonomy of

parents and schools while clearing out demonstrably bad actors, more students and resources can flow to schools that meet children's needs. And by giving parents the information and resources that they need to not just pick a school that will do right by their child but also know how to advocate for themselves, their school, and their community, the system can have a real durability to ensure its survival.

Crafting this kind of policy will not be easy. But given the power of the market to drive quality and diversity, there are many reasons to believe it will be a worthwhile effort.

### About the Author

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