Rewards and School Choice

Kindergarten through 12th grade public education in the United States relies too much on intrinsic motivation and not enough on extrinsic motivation. Competition and consumer choice, which create rewards for greater effort and achievement in much of American life, are highly constrained or absent in K–12 public schools. Attaching student rewards to tests and performance-based compensation for teachers can only partly make up for this dysfunctional organization.

The reform most likely to transform the nation’s schools is allowing them the flexibility to specialize and strive for excellence as they define it, and to give parents the freedom to choose, without financial penalties, the schools best suited for their children. This combination of school flexibility and portable funding – sometimes called weighted student funding or “backpack funding” since the student carries his or her education funds directly to the parents’ chosen school – is what we mean by school choice.

School choice programs were shown in Chapter 3 to significantly improve student academic achievement, increase parental satisfaction, and generate other benefits. Expanding school choice, however, is opposed by teachers unions and many “progressive” educators. For example, Margaret Diane LeCompte and Anthony Gary Dworkin dismiss school choice as “private solutions to a public problem” that “violate deeply held American cultural ethics.” This chapter explains why that view is wrong.

School choice creates incentives that change the behavior of students, parents, teachers, and administrators. It solves the problems, presented in Chapters 4 and 8, of how to set educational goals and fairly use objective
tests for achievement in a diverse democratic society. Four kinds of school choice show particular promise: charter schools, the parent trigger, vouchers (or scholarships), and education savings accounts. We will describe successful examples of each of these choice programs and then present best practices for school reformers to launch or expand them in their cities and states.

**A State of Emergency**

If students attending public schools in the United States were generally achieving at high levels, it might be unnecessary to propose that those schools be fundamentally changed – transformed – rather than merely reformed. Perhaps they could be made better by adopting more of the rewards we’ve shown to be highly effective inside and outside schools. Perhaps they would just need to change the tests they administer, or how they pay teachers, or add computers to more classrooms. Regrettably, this is not the situation we face. Public education in the U.S. is in a state of emergency and needs the kind of fundamental change that only school choice can deliver.

In 1983 the National Commission on Excellence in Education, a blue-ribbon panel appointed by President Ronald Reagan, warned in its report *A Nation at Risk* that “the educational foundations of our society are presently being eroded by a rising tide of mediocrity that threatens our very future as a Nation and a people.” It declared, “If an unfriendly foreign power had attempted to impose on America the mediocre educational performance that exists today,” its authors declared, “we might well have viewed it as an act of war.”

This is not a partisan sentiment. Bruce Maclaury, president of the liberal Brookings Institution, wrote in 1990,

> By most accounts, the American education system is not working well. Children appear to be learning less in school today than they did a generation ago. Some 25 percent of the nation’s high school students drop out before graduating, and in large cities – whose poor and minority children desperately need quality education – the figure can climb to 50 percent. On math and science achievement tests, American teenagers trail students from other nations – a pattern with alarming implications for America’s ability to compete in the world economy.
Even progressives agree. “[E]ducation in the United States is in a virtual state of emergency,” wrote LeCompte and Dworkin in 1991. “We feel that the situation many American children experience in their homes and neighborhoods and the conditions that confront their future are devastating. Furthermore, the conditions under which teachers are expected to teach and children are expected to learn are catastrophic.”

During the 40 years since publication of *A Nation at Risk* a host of costly reforms has been attempted, among them changing teacher training and certification, curriculum, class size, and school size; centralizing and decentralizing administration; setting high academic standards, linking and unlinking them to curriculum, and then abandoning and attempting to resurrect the same; discouraging or banning such common rewards as grades and praise; and much more. Through it all, the key measures of academic achievement in the U.S. have remained stubbornly poor.

Only 40 percent of U.S. fourth-graders and 35 percent of eighth-graders scored “proficient” or better in mathematics on the 2011 National Assessment of Educational Progress (NAEP), and only 34 percent of fourth- and eighth-graders were proficient in reading. Only 32 percent of eighth-graders were proficient or better in science. There is some evidence that even these numbers overstate student achievement because states that report the most progress exclude high numbers of students from groups that often bring scores down, including learning-disabled students and English Language Learners (ELL).

In 2009, the scores of U.S. 15-year-olds on international assessment tests for reading and science literacy were “not measurably different from the OECD [Organization for Economic Cooperation and Development] average” and were below the OECD average for mathematics literacy. U.S. students used to outperform their counterparts in other developed countries.

The U.S. high-school graduation rate for 2010–11 was only 75.5 percent, indicating that one in four students who make it to high school drops out before graduating. Some 1,550 public high schools reported dropout rates of 60 percent or more.

The problem is not a lack of spending. Real per-pupil spending (adjusted for inflation) rose 23.5 percent between 1994 and 2004 and more than doubled from 1970 to 2005. Research by dozens of scholars has found no consistent relationship between higher spending and improvement in academic achievement. The problem is declining productivity – the
ratio of inputs to outputs. American school productivity fell by between 55 and 73 percent between 1970–71 and 1998–99, depending on the skill and age cohort tested. If schools today were only as productive as they were in 1970–71, the average 17-year-old would have a score that fewer than 5 percent of 17-year-olds currently attain.

The falling productivity of government schools can be traced to three developments inside the public school establishment. The first is growth of a vast bureaucracy of nonteaching personnel. Government schools in the United States report a higher ratio of nonteaching personnel to teachers than government schools in any other developed country. In 2005, teachers comprised just 51.2 percent of all the staff employed by public elementary and secondary school systems in the U.S.

The second trend is the fall in average class size. The number of teachers rose significantly faster than school enrollment after 1970, although not as rapidly as nonteaching personnel. The ratio of students to teachers in public schools fell from 17.6:1 in 1987 to 15.4:1 in 2007, a decrease of 12.5 percent. The third reason for the low productivity of government schools is a dropout rate that has not fallen despite large increases in spending and personnel. Students who drop out before graduating increase the cost per graduated, or finished, student.

This record of failure suggests the problem facing public schools is deeper than many reformers think. It is time to raise questions about the fundamental organization of public schools.

School Choice and Incentives
Government control of schools is often justified by appeals to the special role schools play in democratic societies, and indeed this is a concern that cannot be dismissed. But that control need not be exercised as it is today in American public K–12 education. Having government agencies own school facilities, hire teachers, approve curriculum, set standards, finance operations exclusively through tax dollars, and systemically discourage competition among public schools and between public and private schools has been a recipe for dysfunction rather than success. This model, copied from the Prussian system of compulsory state-funded schools in the early nineteenth century, has all the disadvantages of a monopoly and none of the virtues of a democracy or market economy.

An alternative model is for government to encourage or require universal free education up to or through high school while also recognizing
the right of parents to have their children educated in privately organized schools, whether nonprofit or for-profit, without financial penalties. Giving parents the power to choose private schools, including religious schools, for their children is the rule rather than the exception among advanced democracies, which may help explain why U.S. students perform poorly compared to students in other countries.²²

School choice creates incentives and opportunities that can accelerate student achievement. For children, "choice gives students a reason for going to a school. When attending a particular school by choice, students are less likely to see themselves as draftees 'biding their time' until graduation; they tend to see more purpose in going to school. This purposefulness (or a lack of it) can be felt in a school’s halls and classrooms; it can be seen on the faces of students and teachers."²³

Parents also enthusiastically embrace school choice programs. A recent survey found that 66 percent of mothers with school-age children “support vouchers for all students to obtain the best education possible. Mothers with school-age children also have more confidence in private school settings than in traditional public schools.”²⁴ Polls by Gallup, Public Agenda, and political scientist Terry M. Moe find similar levels of support.²⁵

Parents respond to school choice by becoming more involved in their children’s education, which is strongly correlated with improved academic success.²⁶ Parents who are empowered by school choice know their concerns are being taken seriously and are welcome to participate in their schools’ management. They respond by becoming educational partners with teachers and administrators. The power to choose among competing schools gives parents much greater influence over the schools their children attend than merely being one of many voters casting votes in elections for school board members. School choice allows parents to change the schools their children attend without having to move to a different community or pay twice for their children’s tuition, once through state and local property taxes and again when paying tuition at a private school.

At the school level, school administrators behave differently when they face tough competition for students and funding from nearby schools.²⁷ Pressure to hold down costs would exist if schools had to compete for students and tuition, but such competition is weak or entirely absent because the current system assigns students to schools in their neighborhoods and public funds go largely to public schools with similar organizations and curricula.
School choice allows school boards and principals to focus on establishing clarity and consensus about school goals and incentives, which is the key to turning around failing schools. Houston recently accomplished this with nine of its worst public schools. The school district replaced every principal in these schools, nearly one-third of other school-level administrators, and more than half of the schools’ teachers. To fill their places, the district hired educators “who possessed the values and beliefs consistent with an achievement-driven mantra and, wherever possible, a demonstrated record of achievement.” In one year, students in these schools made “dramatic” mathematics and reading achievement gains similar to students in high-quality charter schools.

In the current system, much of the control and decision-making regarding individual schools is exercised at the state and district levels, which issue top-down edicts and rules in an attempt to achieve clarity and consensus. However, this approach is doomed to failure. Bureaucracies rely on restricting the options and choices of people at the bottom of hierarchies in order to compel them to act in certain ways despite incentives and their desires to act otherwise. This leads to what has been called “Campbell’s law of performance measurement”: “The more any quantitative social indicator is used for social decision-making, the more subject it will be to corruption pressures and the more apt it will be to distort and corrupt the social processes it is intended to monitor.”

Progressive educators recognize this problem even as they refuse to embrace its solution. LeCompte and Dworkin write, “One of the real problems with school reform is implementation. Reformers tend to forget that all of the changes, whether curricular, organizational, or psychosocial, will have to be implemented with virtually the same instructional and administrative staff that existed pre-reform. ... Finally, reforms founder because of organizational inertia and resistance. Schools often greet reform initiatives with a ‘circle the wagons’ mentality impervious to change initiatives.”

Successful reforms in education give schools incentives to innovate rather than mandate single top-down solutions. Educators are allowed to focus on building consensus, discovering what resources or policies are needed, and then adopting them. Teachers are allowed to find solutions through trial and error rather than being told to act as cogs in a grand scheme set forth by others remote from their classrooms. This process is sometimes called “searching” to contrast it with “planning.” School choice
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programs create an environment in which searching can replace planning.

Solving the Goal-Setting Problem
In Chapter 4 we described the nation’s long history of delegating responsibility for regulating schools to state and local governments and recognizing the primacy of parents’ rights over the education of their children. School choice represents one possible solution to the goal-setting problem by creating an environment in which parents and teachers are free to work together to develop the goals most suitable for each child.

The case for making parents the primary goal-setters in K–12 education is a strong one. Parents spend the most time with children and know their needs, interests, and talents best. They have a personal financial interest in seeing their children become productive adults and be successful in raising families of their own. They have a constitutional right to exercise control over their children’s education. The way to involve parents in goal-setting is for state and local governments to allow schools the flexibility they need to meet the demands of parents while simultaneously giving parents the freedom to choose, without financial penalty, the schools they believe are best for their children.

Critics of school choice warn, as has Amitai Etzioni, a prominent sociologist, “there are dangers in the simplistic introduction of competition into areas of human services. In these areas the consumer’s knowledge is usually limited; it is more difficult for parents to evaluate education than, say, a can of beans.” But no one claims choosing the best school for a child is as easy as choosing “a can of beans.” Limited knowledge can be overcome by experience, producer reputations, guarantees and warranties, and personal and public sources of information. Writing back in 1978, John Coons and Stephen Sugarman pointed out, “the question is not whether the judgment of the isolated and unassisted family is superior to the professional cadre of a school or a district. It is rather, when all available knowledge, personal and professional, about the particular school is assembled, to whom shall society commit the final choice.”

Despite the problem of information asymmetry, consumers are routinely trusted to make decisions with major implications for their family’s safety and well-being, often with professional or peer advice. We choose among competing producers for housing, food, and medicine even though few of us are licensed architects, nutritionists, or pharmacists.

Research shows that when parents are allowed to choose the schools
their children attend – such as when charter schools compete with conventional public schools or when public schools compete with one another through open enrollment programs – they make careful and informed decisions.38 Surveys show parents rate schools largely the same as experts do, and most parents choose schools on the basis of their perceived academic quality.39 For example, a poll of New York City parents seeking privately funded scholarships to attend Catholic schools revealed the first concern of 85 percent of the parents was academic quality, while only 38 percent cited religious instruction as a significant attraction.40 Another survey showed 81 percent of parents approved of high-stakes testing for grade promotion and 85 percent approved of expecting high-school students to pass a tough exit exam before graduating.41 The research summarized at the end of Chapter 3 on the positive effects of choice on student academic achievement also confirms that parents choose wisely.

Evidence and experience have persuaded state policymakers to expand the ability of parents to choose the schools their children attend. In the sections that follow we describe four very different and yet successful programs that expand parental choice in education.

Charter Schools: Knowledge Is Power Program (KIPP)
Most states now offer limited school flexibility and parental choice in the form of public schools that operate on charters issued by a local school district or in some cases a different chartering entity. The charter says the school will receive a certain amount of funding per student as long as it achieves specific outputs and complies with operating standards set forth in the agreement. Students are not assigned to charter schools but instead attend only if their parents or guardians choose the school. In return for giving up the security of guaranteed enrollments and annual budgets, charter schools are exempted from various rules and regulations such as minimum class sizes, mandated curriculum, and collective bargaining agreements.

Forty-two states and the District of Columbia have enacted charter school laws.42 Approximately 1.6 million students attended charter schools in 2010, about 3 percent of all school-age children.43 Because charter schools are heavily concentrated in low-income neighborhoods and big cities, determining their success relative to traditional public schools can be difficult and controversial.44 However, the best research on the subject – by Caroline M. Hoxby,45 Bryan C. Hassel,46 and Hoxby and Jonah E.
Rockoff\textsuperscript{47} – shows convincing evidence of superior performance by charter schools.\textsuperscript{48} Importantly, randomized assignment studies – the “gold standard” for social science research – show charter schools have a positive effect on achievement, though these studies tend to be small-scale.\textsuperscript{49}

As discussed in Chapter 7, among the most successful charter school networks is the Knowledge Is Power Program (KIPP), a nationwide collection of open-enrollment middle schools commonly located in urban and poor communities. KIPP was founded in Houston, Texas in 1994 and has grown to 125 schools serving more than 41,000 students in 20 states and Washington, DC. Ninety-five percent of students enrolled in KIPP schools are minorities and more than 80 percent qualify for the federal free and reduced-price meals program for children from families in poverty.\textsuperscript{50}

KIPP schools identify five “operating principles” that distinguish their approach from other schools: clearly defined and measurable high expectations for academic achievement and conduct; parents and the faculty choose to be part of a KIPP school (“no one is assigned or forced to attend a KIPP school”); an extended school day, week, and year; principals who are empowered to lead their schools by having control over their school budget and personnel; and a tight focus on high student performance on standardized tests and other objective measures.\textsuperscript{51}

All five of these principles track what research shows to be the strategies of high-performing schools.\textsuperscript{52} Without the flexibility that charter school status provides, KIPP schools would not be able to adopt these policies, and without the public funding that follows low-income students to KIPP schools, the schools would be unable to compete with free public schools or serve disadvantaged communities. Public schools in districts where KIPP operates obviously could model some of their schools on the KIPP approach but, significantly, they have not done so. Thus, without KIPP, KIPP students would still be sitting in schools that are stubbornly unresponsive to their educational needs.

KIPP teachers, parents, and students must sign agreements, called the “KIPP Commitment to Excellence,” spelling out in detail their obligations to the school.\textsuperscript{53} For example, teachers agree to arrive at the school on weekdays by 7:15 a.m. and leave no earlier than 5:00 p.m. Monday – Thursday and 4:00 p.m. on Fridays; to teach at KIPP during the summer; to “always make ourselves available to students and parents, and address any concerns they might have”; and to “always protect the safety, interests, and rights of all individuals in the classroom.” Parents agree to “always help our
child in the best way we know how and we will do whatever it takes for him/her to learn. This also means that we will check our child’s homework every night, let him/her call the teacher if there is a problem with the homework, and try to read with him/her every night.”

Students promise to “always work, think, and behave in the best way I know how, and I will do whatever it takes for me and my fellow students to learn. This also means that I will complete all my homework every night, I will call my teachers if I have a problem with the homework or a problem with coming to school, and I will raise my hand and ask questions in class if I do not understand something.”

KIPP schools are notable for their use of financial rewards to motivate students, which were described at some length in Chapter 3. A profile of the schools in *Time* magazine noted the alignment of the KIPP model with research on the effectiveness of rewards conducted by Harvard’s Roland J. Fryer, Jr.

The Knowledge Is Power Program (KIPP), one of the most successful charter-school networks in the U.S., has been doling out financial incentives for 15 years, using a model that happens to align perfectly with the results of Fryer’s study. KIPP students get paid for actions they can control – getting to school on time, participating in class and having a positive attitude – with “money” they can redeem for supplies at the school store. Over the years, KIPP leaders, who now run 82 schools nationwide, have learned a lot about which rewards work and which do not. They have found that speed matters, for example. Recognition, like punishment, works best if it happens quickly. So KIPP schools pay their kids every week.54

In 2013, the Mathematica Policy Research group published a multi-year study of KIPP schools and found that after three years in the program the students were 11 months ahead of their public school peers in math, eight months ahead in reading, and 14 months ahead in science.55 According to KIPP, by the end of eighth grade 62 percent of its students outperform their national peers in math, and 57 percent do so in reading. On state tests, by the end of eighth grade, 94 percent of KIPP classes outperform their local districts in reading; 96 percent do so in math.56

KIPP is not the only network of successful charter schools,57 but KIPP
schools illustrate how the charter mechanism can be used to reward students, parents, teachers, and school administrators who set high standards, work together, and use research-proven methods to accelerate learning.

**Parent Trigger: California**

California Governor Arnold Schwarzenegger signed the nation’s first parent trigger law on January 7, 2010. The program grew out of grassroots outrage over the low quality of public schools especially in Los Angeles. As California State Senator Gloria Romero, a Democrat representing Los Angeles and author of the parent trigger bill, told the *Los Angeles Daily News*, “I’m sorry – after a certain point you are no longer credible on the promise that you’ll fix it. Parents want change and opportunity now.”

Since 2010, some 20 states have considered parent trigger legislation and six (in addition to California) have adopted variations on the plan. The concept is popular with parents: A poll conducted in 2013 found 49 percent of U.S. adults support parent triggers while 40 percent oppose such laws. How do parent triggers work?

In California, participation is limited to parents with children enrolled in a failing public school as defined by the California School Code or in feeder schools (neighborhood primary or middle schools) that send children to a failing school. Schools must be labeled a “program improvement school” for more than three consecutive years for failing to meet federal academic benchmarks, have an Academic Performance Index (the state’s benchmark test) of less than 800, and be among the lowest 5 percent of schools in California. The number of schools that can be “triggered” is capped at 75 statewide.

If 50 percent of eligible parents sign a properly designed petition, the local education agency – usually a school district – must implement one of four “school intervention models” specified in the petition. The four models are closure (close the school, fire or reassign the staff, and send the children to better-performing schools nearby), restart (convert the school to an independent charter school), turnaround (replace school leadership and grant new leaders more flexibility), and transformation (turnaround model with added layers of bureaucratic oversight.)

The parent trigger forces school districts to undertake changes that school administrators and staffs otherwise would oppose. The simplicity of the process lowers the cost to parents in terms of the time they must invest
in order to improve their children’s schools, thereby creating an incentive for them to pay attention to and more actively participate in reform efforts. Teachers and administrators, realizing that parents now wield the power to shut down the school or hand it over to a charter school operator, have new incentives to listen carefully to parents’ concerns, focus more on academic success, and join parents in a united quest for excellence.

Closing persistently failing schools and moving children into new schools accelerates student achievement only if better schools are available nearby and can accommodate an influx of students – a problem in large cities with large numbers of failing public schools. Transferring to a new school can be disruptive for the child, parents, and teachers, and the costs must be weighed against the potential benefit for the individual child as well as other children. Most transferring students recover whatever academic ground they lose after one or two years in their new school and then outperform their counterparts who remained behind in the failing school. All students, including those not enrolled in a failing school, benefit when even a small number of schools are closed, because such closures signal to school administrators that failure will not be tolerated.

Allowing parents to petition to have their local public school converted into a charter school is a wise policy choice. Parents often develop loyalty to the personnel of local public schools that can lead them to oppose the opening of a charter school nearby. A parent trigger places the decision in the hands of parents themselves, helping to ensure community support for new charter schools. The conversion option solves problems related to arbitrary caps on the number of charter schools allowed in a city or a state (often negotiated in state capitols as the price of avoiding union opposition) and limited access by charter school operators to surplus school buildings and other resources that public school systems hoard.

California’s parent trigger is an innovative and positive piece of public policy, but it is not perfect. Most notably it does not include private school choice – vouchers or scholarships – in the list of options from which parents can choose. This is like giving guests on the ill-fated Titanic a choice of seats on the deck of the sinking ship but forbidding them from using the lifeboats. The “turnaround” and “transformation” models, adopted from the federal Race to the Top legislation, are the weakest of the options available to parents. Merely replacing the existing school management with another version of bureaucratic control offers little assurance that students would benefit.
Another shortcoming of California’s law is that it allows local school authorities, who plainly have a conflict of interest, to override the option chosen by parents, potentially undoing many hours of parents’ time and crushing raised hopes. Even the risk of such a veto is enough to discourage many parents from going through the considerable effort of circulating a petition. California places severe restrictions on which schools are subject to the law – only the worst 5 percent and no more than 75 schools – and therefore denies use of this powerful tool to millions of parents who might otherwise choose to use it. Why not let parents, rather than state and federal bureaucrats, determine which schools are “failing” and therefore subject to the parent trigger?

Another problem with California’s parent trigger law is that it is tied to the federal Race to the Top initiative, which was funded by the 2009 American Recovery and Reinvestment Act. By incorporating by reference federal rules and guidelines, California’s legislators have made school reform in their state subject to the past and future judgments of Congress and Washington bureaucrats.

Later in this chapter we will present design guidelines for policymakers and parents who might want a parent trigger law without California’s shortcomings. Our reservations aside, the parent trigger is clearly an idea that can move K–12 schools in the right direction by rewarding parents for getting actively involved in school reform efforts and exposing educators and administrators to the risks of closure, competition, and choice.

**School Vouchers (Scholarships): Indiana**

School vouchers – sometimes called scholarships – expand school choice by giving parents public financial support to choose private schools for their children. In 2012, 29 voucher and tax-credit programs operated in 21 states and the District of Columbia and enrolled 212,000 children. States including Florida, Indiana, Louisiana, and Wisconsin are dramatically expanding their scholarship programs.

In 2011, Indiana adopted the Indiana School Scholarship Program (ISSP), a voucher program for families in Indiana with incomes up to 150 percent of the amount required for the family’s children to qualify for the federal free or reduced-price school lunch program. A family of four earning up to $61,000 per year would be eligible to participate in the program. Participation was limited to 7,500 students in the first year and 15,000 in the second, with no cap on enrollment after the second year.
Low-income families qualify for scholarships equal to private school tuition or 90 percent of the state’s current share of per-pupil public school spending, whichever is less. Students from households with incomes between that mark and 150 percent of that mark qualify for scholarships equal to tuition or 50 percent of state per-pupil spending, whichever is less. Scholarships for students in grades 1–8 are capped at $4,500, but scholarships for high-school students are not capped.

In 2012–13, more than 9,000 Indiana students received scholarships and nearly 300 schools participated in the ISSP. In 2013 the law was expanded to include children attending failing public schools and special-needs students regardless of family income. The expansion also attached special-education funds of up to $8,350 to the scholarships received by children with special needs such as blindness and learning disabilities.

The law features a fair and non-bureaucratic form of accountability by providing for suspension of scholarship payments for new students if a school fails to rise above either of the lowest two categories of public school performance currently set forth in the school code. Parents are allowed to use their own resources to add to the scholarship if tuition exceeds the value of the voucher, a laudable policy that encourages more parents and schools to participate. ISSP allows schools to retain control over admissions requirements and requires lotteries only if the number of applicants exceeds the number of vacancies.

An especially strong feature of the ISSP is that it erects barriers to increased regulation of participating schools. Fear of excessive regulation is expressed in some quarters as a principal reason to oppose school vouchers. The Indiana law erects at least four barriers to this threat:

- Chapter 4, Section 1(a) memorializes the legislature’s intent to preserve the autonomy of private schools by saying “it is the intent of the general assembly to honor the autonomy of nonpublic schools that choose to become eligible schools under this chapter. A nonpublic eligible school is not an agent of the state or federal government.” This language is important because it creates a presumption in favor of less rather than more regulation of participating schools and establishes that it is in the public interest to preserve the autonomy of private schools.

- Chapter 4, Section 1(a)(1) says “the department or any other state agency may not in any way regulate the educational program of a
nonpublic eligible school that accepts a choice scholarship under this chapter, including the regulation of curriculum content, religious instruction or activities, classroom teaching, teacher and staff hiring requirements, and other activities carried out by the eligible school.”

Chapter 4, Section 1(a)(2) states: “the creation of the choice scholarship program does not expand the regulatory authority of the state, the state’s officers, or a school corporation to impose additional regulation of nonpublic schools beyond those necessary to enforce the requirements of the school scholarship program in place on July 1, 2011.”

Chapter 4, Section 3(a) reads: “An eligible school may not discriminate on the basis of race, color, or national origin.” This language properly forbids discrimination on the basis of race, color, or national origin but not religion or other factors that may be important to a school’s culture. This matter is settled law. So long as a voucher program empowers parents to choose public or private schools, and does not tilt incentives toward religious schools or toward schools teaching or practicing a particular faith, a religious element in admissions and classroom teaching is acceptable.

The ISSP isn’t perfect legislation. The cap on the value of scholarships for grades K–8 is too low and not indexed for inflation or state per-pupil spending. Nationally, secular private schools charge an average of $15,945 a year in tuition, more than three times the value of the scholarship provided by the ISSP. The cap of only $4,500 for scholarships for grades K–8 will pose a barrier to entry for some private schools. This “bad” provision is partially offset by the facts that there is no similar cap on the value of high-school scholarships and parents are allowed to supplement the scholarships with their own tuition payments.

By limiting participation to low-income families, the ISSP requires parents to share their tax returns and other personal information with schools and government agencies to determine their eligibility for grants of different sizes, an invasion of privacy that will reduce participation. Such means-testing also creates disincentives for parents to accept new jobs or report additional income if they believe doing so will disqualify them from future tuition scholarships. The loss of a scholarship as income rises is
similar to a high marginal tax on earnings, which extensive research shows leads to less effort and fewer hours of work.\textsuperscript{70}

The ISSP limits participation to accredited schools, which Indiana currently over-regulates. It also requires participating schools to administer the state’s achievement tests rather than giving participating schools their choice of norm-referenced tests. A better choice would be to require schools to administer and release the results of norm-referenced tests of their choice. There are several accepted national norm-referenced tests available that would produce results at least as meaningful as the state’s tests.

Finally, the ISSP tries to micro-manage the teaching of civics and American history, perhaps to head off criticism that participating schools might teach anti-American doctrines. Concern about the possible misuse of public funds to support schools that teach violence or hatred of America is legitimate, but it is addressed simply and correctly for all schools in Chapter 4, Section 1(g): “An eligible school, charter school, or public school shall not teach the violent overthrow of the government of the United States.” The ISSP goes far beyond this, presenting some two-and-a-half pages of detailed instructions on what participating schools must teach.

Despite its flaws, the Indiana School Scholarship Program serves as a good model for legislators considering drafting legislation for voucher programs in their states. As the program expands it could benefit millions of children in Indiana and prompt other states to follow Indiana’s lead.

\textbf{Education Savings Accounts: Arizona}

As vouchers and tax credits move more substantially from theory to practice in cities and states across the country, greater attention is being focused on matters of program design. One design feature that could boost the effectiveness of school choice and help minimize the threat of increased regulation of participating schools is education savings accounts, or ESAs.\textsuperscript{71}

ESAs are tax-sheltered savings accounts similar to individual retirement accounts (IRAs) and the newer health savings accounts (HSAs). In the case of IRAs and HSAs, employers and individuals make deposits into the accounts and spending is limited or not allowed until the individual reaches a certain age for IRAs, and only for health care expenses for HSAs. An ESA operates similarly but with spending limited to education expenses and with governments depositing into the ESA each year the money collected from taxes that would otherwise go to public schools. Parents can then draw on the account to pay for tuition at the public or private schools of their choice,
or pay for tutoring and other educational expenses for their child. At the end of a student’s K–12 career, anything left in the account could be applied to college tuition or technical training. When the student reaches a certain age (19, 21, or 23 are often suggested), anything left in the account would revert to taxpayers.

ESAs are not a new idea. They were the central feature of a proposal made in 1992 by The Heartland Institute to the New American Schools Development Corporation as part of a national competition for “breakthrough” ideas for school reform. The proposal placed in the top 4 percent of 686 competitors but did not receive funding. A year later, ESAs were part of the first modern school choice initiative to appear on a ballot—the 1993 California Parental Choice in Education Initiative. Three years later, the California Educational Freedom Amendment contained similar language. Both initiatives were defeated. ESAs have been proposed by several researchers, including the authors, in the years since then.

In 2011, Arizona became the first state to adopt education savings accounts into law. Called “Empowerment Scholarship Accounts,” originally only children with special needs who were previously enrolled in public schools were eligible. Children in failing schools, children in military families, and adopted and foster children became eligible in 2013. Grants originally were set at 90 percent of what the school would have received from the state minus another 3 percent for administration costs, approximately $3,000. In 2013 the amount was changed to 90 percent of state per-pupil charter school funding, approximately $6,000, plus whatever additional funds are allocated for special-needs children.

Parents who are allowed to set up accounts agree to enroll their child in private or online schools or to homeschool their children. Instruction must cover reading, grammar, mathematics, social studies, and science. Participating students are not required to take tests. Arizona State Sen. Rick Murphy, a sponsor of the 2013 legislation that expanded the program, said “I agreed to include the so-called accountability provisions with the exception of a testing requirement. I don’t think a testing requirement is necessary because parents are the accountability. You either trust them to make good choices for their child or you don’t.” He added, “The majority of private schools already provide a nationally norm-referenced test. In the rare schools that don’t, it’s probably because the parents don’t see it as valuable and haven’t demanded it, and it shouldn’t be forced on them.”

Annual ESA deposits made to date have ranged from $1,500 to
Parents use debit cards to pay expenses and send receipts to the Department of Education each quarter for approval. Allowable uses for funds are listed in the table on the following page.

The program enrolled only 75 children in its first year and 400 in its second, but with the new eligibility rules and larger scholarship amount adopted in 2012, its supporters expect enrollment to grow rapidly. No doubt the program could be improved: universal eligibility would dramatically boost participation. But otherwise the program has the admirable features of minimal rules, regulations, and bureaucracy. The program also has withstood the usual legal challenges from teachers unions and other entities opposed to change.

Arizona’s Empowerment Scholarship Accounts demonstrate how ESAs are a promising way to bring competition and choice into K–12 education. Supporters of ESAs recognize that learning increasingly takes place outside brick-and-mortar buildings and learning environments can be designed to accommodate the needs of individual students, meaning tuition may not be the only or even the largest expense confronting a highly engaged parent. Allowing parents to keep money left in the accounts at the end of each year gives parents a financial incentive to find efficient ways to accelerate learning and for providers to compete on the basis of price rather than only promises of high quality.

ESAs could make school choice more popular among suburban parents who tend to think their government schools are high quality but impose too great a tax burden. Per-student spending for suburban high schools often exceeds $16,000, more than even relatively expensive private schools typically charge for tuition. With a universal ESA program in place, some of those parents would be tempted to enroll their children in a private school charging, say, $12,000 a year in tuition and to place the remaining $4,000 in the student’s ESA.

ESAs, finally, could protect parents and schools from increased government regulation, which is always a threat under charter school and scholarship programs. An ESA would stand between governments and schools, with tax dollars first deposited into the student’s account and then tuition or fees paid by check or debit card by the parent or guardian. Schools would not receive payment directly from government agencies.
Allowable Uses of Funds from Empowerment Scholarship Accounts

- Tuition, fees, and/or required textbooks at a qualified school. A qualified school is defined as a private school in Arizona serving kindergarten, grades one through 12 or a preschool for disabled students. The school must not discriminate on the basis of race, color, or national origin.

- Educational therapies and/or services for the student from a licensed or accredited practitioner or provider.

- Tutoring services from an individual or provider who is accredited by a state, regional, or national accrediting organization.

- Purchase of curriculum, generally defined as a complete course of study for a particular content area or grade level.

- Tuition and/or fees for a private online learning program.

- Fees for nationally standardized norm-referenced achievement tests, Advanced Placement exams, and/or other exams related to college or university admissions such as ACT or SAT.

- Contributions to a qualified college savings plan, as authorized by 11 United States Code §529, for the benefit of the student.

- Tuition, fees, and/or required textbooks at a public community college or university in Arizona.

- Account fees charged by a bank administering the ESA.

Best Practices
Four types of school choice programs are described above: charter schools, parent triggers, school vouchers (or scholarships), and education savings accounts. The successful or promising examples presented offer guidance to policymakers and parents who want to expand school choice in their own cities and states. Some of the best practices for each follow.

Charter Schools
Charter schools have been around for some 20 years, and states vary in policies concerning their funding and accountability. A large body of research exists on best practices. Some of the more important insights include:

- Do not limit or arbitrarily cap the number of charter schools or the number of students who can attend charter schools.

- Do not attempt to overly specify what charter schools must look like by, for example, specifying student-teacher ratios, seat time, curriculum, or facilities, or what types of groups may be allowed to start charter schools.

- Exempt charter schools from most school district laws and regulations, retaining only laws most necessary to safety and civil rights. Follow North Carolina’s lead and exempt charter schools from teacher certification requirements.

- Fund charter schools at a level close to the amount the public schools receive in order to ensure real competition and choice. While the amount need not be 100 percent, since there is waste in traditional public schools that ought to be squeezed out by competition, 50 percent is probably too little to attract entrepreneurs and support high-quality schools.

- Establish alternative authorizers. Allowing only a local school district to authorize a charter school often leads to too few schools to meet the demand. Statewide authorizers independent of the local public school district are necessary to overcome the conflicts of interest and lack of expertise on charter schools that plague many local school districts.
Establish clarity and consensus about school goals by defining acceptable performance standards for charter schools in state statutes, rather than allowing authorizers to set (or not set) them. Expected outcomes should be uniformly high and publicly recognized.

Close charter schools that are failing to meet minimum performance thresholds. In return for flexibility, charter schools accept responsibility for failure. The closing of some charter schools should be viewed as evidence the system is working, not that it is broken.

**Parent Triggers**

California’s parent trigger was a product of the state’s political and economic environment. Other states face similar pressures and choices, but they do not have to make the same choices California’s lawmakers made. Some design guidelines include:

- The parents of children attending *all* public schools should be able to petition to reform their schools. There should be no arbitrary cap on the number of students or schools that could participate in the program.

- School boards should not be given the authority to overrule a petition by parents, or a process for appealing such a decision should be made explicit in the trigger law. Public funding for litigation and representation of parents during the appeals process should be provided by the state.

- The flawed turnaround and transformation models should be replaced with vouchers or scholarships to pay tuition at participating public or private schools.

- Boards or committees created to oversee the process should have supermajority representation by parents since teachers and school board members have manifest conflicts of interest. Candidates for such boards should be ruled ineligible if they work for a school district or have a spouse who works for one.

- The petition process should be carefully spelled out in the legislation.
to prevent opponents of reform from using litigation and pettifoggery to block the clear intent of parents.

- Resources should be made available to parents so they can make informed choices about whether to begin a petition drive, how to word the petition, how to gather signatures, how to submit the petition, and so on. This could take the form of modest grants given competitively to nonprofit civic organizations.

- Although the federal Race to the Top program provided an impetus for enacting the parent trigger in California, it is not necessary or desirable that other states tie their trigger legislation so closely to the federal program.

**Vouchers (Scholarships)**

Voucher or scholarship programs have been designed to achieve a variety of goals such as benefiting special-needs children, rescuing children in inner cities from low-performing public schools, and saving taxpayers money. The focus in this chapter has been to use scholarships to transform public education, which means changing the way K–12 schooling is provided for all children. With that goal in mind, here are important best practices.83

- Allow all parents to choose. This may require phasing in the program over several years, perhaps by grade level or starting with poor families and then moving to universal eligibility. Parents are reluctant to move their children from their current schools, and even private institutions that must compete to survive require some time to adapt to new rules.

- Allow all schools to compete. Don’t limit participation to only nonprofit, secular, or even accredited schools. Regulate primarily for safety and transparency and not for policies unrelated to student achievement such as class size or seat time.

- Set the value of a scholarship at between half and three-quarters of current public per-pupil spending and allow schools to charge more than that amount, with parents making up the difference. This ensures that the scholarships are sufficiently generous to prompt the creation of
new schools while also making it possible to provide scholarships to children who already attend private schools without increasing total spending.

- Fund the scholarships out of current per-pupil allocations from state and local tax sources. This can help avoid protracted political and legal battles by leaving in place current (often complex) funding formulas that have evolved over years of negotiations and political compromise.

- No new regulations should be imposed on schools that choose to participate in the scholarship program. Indiana’s School Scholarship Program offers a good model in this regard.

- If the scholarship program requires that students be tested, then schools and parents should be allowed to choose among different norm-referenced tests rather than be required to take a single state-administered test.

- Place administration of the program in the hands of a neutral oversight authority independent of the public school establishment, including the state school board. Consider the state treasurer or comptroller since they presumably are less likely to have conflicts of interest.

**Educational Savings Accounts**

Education savings accounts (ESAs) have been tried in only one state, Arizona, and that program is too new and too small to produce many lessons for reformers. Many of the best practices set forth above for scholarship programs, however, apply equally to ESAs. They need not be repeated here.

Misuse of funds is likely to be a bigger problem with ESAs than with scholarship programs because a much larger universe of vendors will be qualified to receive payments from the accounts. Asking vendors to pre-register with the state could reduce fraud but also greatly reduce parental choices. Either way, the state will require sophisticated data processing and auditing systems built around debit cards, a competence that private-sector companies have but the government in a given state may not.

ESAs require more from parents than traditional public schools or even
scholarship programs. Parents must be educators, accountants, program coordinators, liaisons to the Department of Education and other agencies, and administrators. Some parents will be overwhelmed and seek to re-enroll their children in local public schools, which may be aggressively downsizing and not able to accommodate the returning students. Many parents will turn to the state for guidance. The state, in partnership with public and private schools and the emerging digital learning industry, must be prepared to field a team of advisors or coaches to lend their assistance.

As parents use ESAs to take their children’s education further and further away from the traditional K–12 school model, difficult issues of grade advancement, graduation, and remediation will need to be addressed. Should a 10-year-old child who is performing at a ninth-grade level in math but a third-grade level in English be advanced from the fifth to the sixth grade? Should advancement, graduation, and a high-school diploma be determined solely by passing exams? Will colleges and employers accept such diplomas? Moving from seat-time requirements toward demonstrated mastery of knowledge and skills, sometimes called competency education, raises public policy issues that need to be addressed. ESAs require these issues be addressed, perhaps sooner than the political process can provide answers.

Conclusion
Schooling in the U.S. is genuinely in a state of crisis. It is unrewarding to students, parents, educators, and the nation as a whole. It continues to threaten society and the economy. “Reform” has been tried and found wanting. Transformation is required. School choice can transform K–12 education not in some distant future but right now in states whose leaders have the courage to adopt the necessary policies.

School choice means giving schools the flexibility they need to thrive while simultaneously giving parents the freedom to choose among schools competing to serve their children. This process of competition and choice is so commonplace in the rest of our lives that we hardly notice it, yet it is conspicuously absent in most of public K–12 education today. To improve education substantially, we need to revisit the nineteenth century decision to place government in control of most of the nation’s schools. We need to expand parents’ choice over their children’s schooling.

Charter schools show the power of competition and choice in education. Their rapid spread across the country shows they enjoy bipartisan support
and the best research finds they produce superior academic results. KIPP schools, in particular, are proving that flexibility and choice can motivate students, parents, teachers, and administrators to work together to achieve excellence.

After more than 20 years, charter schools still enroll only 3 percent of all students. Opposition to their establishment is often intense outside big cities, and even in big cities there are efforts to roll back the gains made by charter schools by re-regulating them. Parent triggers – laws that allow parents to petition to have their local public schools shut down or be converted into charter schools, or get scholarships to send their children to private schools of their choice – are a step further than where charters can take us. Why not empower a majority of parents to vote to transform their local schools?

More radical than the parent trigger are vouchers or scholarships. Why should a majority of parents have to vote before even one parent is allowed to use the public dollars already committed to his or her child’s education to pay tuition at a better, private school? Greater parental choice is necessary to get past the 3 percent or 4 percent participation wall that charter schools are facing. The fact that 21 states and the District of Columbia now have voucher or tax-credit programs suggests these advanced forms of school choice are catching on around the country. Indiana shows what a promising statewide program looks like.

Even more disruptive of the status quo than vouchers are education savings accounts. Why should parents be allowed to use the public dollars raised for their child’s education only on private-school tuition when digital learning technologies are making traditional brick-and-mortar schools obsolete? Why not allow them to assemble a portfolio of schools, teachers, online courses, and testing services that is uniquely tailored for their child? Who better than parents to assemble such a plan, possibly with advice from experts and experienced friends? Arizona is conducting what may be the most exciting school choice experiment taking place in America today.

Schools of choice are highly effective because they benefit from the altered behavior of all parties involved. Students are more motivated when they attend schools they helped choose or their parents chose for them. Administrators and teachers of schools that parents choose are rewarded with increased enrollment and revenue. Parents who take the time to choose a high-quality school for their children and who express their concerns to teachers and school administrators are rewarded when the schools are
responsive to their concerns and requests. Even taxpayers are rewarded since schools of choice generally spend less than traditional public schools.
Notes


30. *Ibid*.

31. See the works by John Chubb and Terry Moe and James Q. Wilson cited in Chapter 2.


35. Ibid., citing William Easterly, The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good (New York, NY: Penguin Press, 2006).


39. Ibid.


43. Ibid.


62. Academic Performance Index (API) scores in California are a compilation of a school’s state standardized test scores, on a scale of 200 to 1,000. The California Department of Education expects all schools eventually to attain APIs of at least 800.

63. Caroline M. Hoxby and Jonah E. Rockoff, “Findings from the City of Big Shoulders,” Education Next, Fall 2005.
64. See the description of these two reform options in Chapter 4.


74. Louisiana and Utah have small programs called “course choice” that give parents and guardians public funds to pay for individual courses delivered by private providers, which is similar to the education savings account idea. For more about how those programs work, see Danielle Dreilinger, “State’s Course Choice Program to Give Students Opportunity to Take Outside Classes, But Financing and Implementation Still Face Hurdles,” January 12, 2013, and “Louisiana’s Course Choice Pilot Program Now Full,” February 20, 2013, both at Everything New Orleans, www.nola.com.


83. For more detail see Chapter 12 of Herbert J. Walberg and Joseph L. Bast, Education and Capitalism, supra note 73, pp. 289–315.

84. Aiden Fleming, supra note 78.