The Education Tax Credit Proposal

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by E. G. West

It’s just the kind of proposal to appeal to Ronald Reagan. First you create a big new federal responsibility to drain billions from the Treasury. Never mind all that talk about a balanced budget. . . . What you want is a new, controllable revenue loss that doesn’t address any national problem. Then you want to make sure that this initiative intrudes deeply into state authority, that it doesn’t chiefly benefit the “truly needy,” and that it raises the prospective threat of more regulation of the private sector. But above all, you want to make Washington responsible for something long considered none of its affair: subsidizing attachments to religious and ethnic groups.


The noise being created these days by those who oppose tuition tax credits provides an excellent illustration of how throwing a bucket of paint on a worthy idea can help to depict it as its very antithesis. Oversimplified as it is, the attack of Messrs. Epstein and Smith easily lends itself to dissection and refutation.

“... big new federal responsibility...”

If by "responsibility" the authors mean the voluntary commitment by the federal government to promoting certain goals in American education, and by "new" they mean to suggest that the federal government has rarely before used its powers to achieve such goals, one can only wonder what the rationale was for passage of the National Defence Education Act of 1959, the Vocational and Adult Education Act of 1963, the Elementary and Secondary Education Acts of 1965, the Education of the Handicapped Act of 1970, the Indian Education Act of 1972, and the plethora of programs that have provided financial aid to college students and the schools they attend-Basic Educational Opportunity Grants, National Defence Student Loans, Guaranteed Student Loans, veterans' benefits, etc.

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1 E.G. West, a member of Policy Report’s editorial board, is professor of economics at Carleton University, Ottawa, Canada, and the author of numerous books on the economics of education.
The federal government has been involved in education ever since it passed the Morrill Act in 1862, which established land-grant universities in many states on the condition that they offer instruction in agriculture and the mechanical arts. Education, therefore, is hardly a "new responsibility." What education tax credits seek to enhance, however, is not governmental responsibility, but parental freedom of choice. The federal government would not be charged with a new obligation either to finance or to regulate private schools—indeed, most tuition tax credit proposals adamantly oppose any increase of government intervention into private education.

".. to drain billions from the Treasury."

Even a brief examination of the economics of education tax credits reveals the concept's enormous tax-saving potential. In 1977-78, 43,731,000 students were enrolled in U.S. public schools, and 5,095,000 attended private schools. The public schools were spending $1,736 per student annually, or $917 more than the $819 per head spent by the private schools.

The Packwood-Moynihan Tuition Tax Credit bill—which attracted 50 cosponsors in the Senate before it was derailed by Carter administration supporters in the final days of the 96th Congress—proposed tax credits that would have reimbursed parents about half the cost of tuition. (A revised Packwood-Moynihan bill has been introduced in 1981.)

Suppose, then, that the government had offered a tax credit in 1978 equal to one-half the average private school expenditure per student that year—one-half of $819, or $409.50. If there were zero pupil transfers from public to private schools, the cost to the authorities would have amounted to more than $2 billion—indeed a drain on the Treasury. But suppose that this tax credit prompted a mere 5% of the public school population (or 2,186,550) to switch to private schools. The authorities would no longer be paying $1,736 per year for each of those students, but $409.50, assuming that entry into private schools is fairly open and that the scale of operations is such that the additional cost of another student is close to the average cost. Multiply this
per student savings of $1,326.50 by 2,186,550, and we find net government savings to be more than $2.9 billion.

A tax credit based on one-half the current average operating expenditure per student in the private sector would begin to generate substantial savings after only 5% of the public school population had transferred to private institutions. A recent nationwide poll conducted by Newsweek (20 April 1981) indicated that 23% of parents with children in public schools say they would probably switch to private schools if Congress approved tuition tax credits of $2504500 a year.

Taxpayers who do not have children would especially welcome this change. And those who do have school-age children should enjoy the reduction in taxes and the greater freedom of choice in their own children's schooling.

What's more, there are numerous precedents for tuition tax credits. Several forms of tax deductions and credits similar to those proposed already exist. Expenditures for education are already tax deductible under certain conditions, as when necessary to reemployment, required by one's employer for retaining one's job, or demanded for the maintenance of one's professional competency. Sixty percent of the return on a capital investment is already deductible, and education may certainly be regarded as a capital investment.

Ironically, contributions for the support of private educational institutions also are allowed-except when payments are made in the form of tuition for one's own offspring. Payments by employed parents to private babysitters for the care of preschool children are tax deductible until the children come of school age.

". . . doesn't address any national problem."

Public high schools are graduating functional illiterates, SAT scores have been plummeting for years, school-board referenda have been voted down throughout the country, the number of students and teachers assaulted and even murdered in schools is increasing - and we don't have a national problem?
The inefficiency of public schools is perhaps to be expected, given the monopolistic system under which they operate. Their performance contrasts sharply with that of private schools. The much discussed Coleman Report, made public earlier this year by the National Center for Education Statistics, confirms that "private schools provide a safer, more disciplined, and more ordered environment than do public schools." There is every reason to expect that if tuition tax credits are enacted, a healthy competition will be fostered between private schools and the public schools now largely unaccountable either to students or parents.

"... intrudes deeply into state authority..."

Any authority over education the states may claim to have has been usurped from local governments in the past few decades. Early American schools were organized at the community level and placed under the direction of popularly elected school boards. Few states had their own departments of education until the early 1950s, and most of them were small, unorganised, and concerned primarily with compiling and publishing educational statistics. Eventually the exercise of regulatory functions and a direct hand in policy making were added. Today, to varying degrees, state educational authorities backed by powerful teachers' unions are able to pre-empt local decision making, withhold federal funds from local school districts, and obstruct, local economy measures that would reduce teaching staffs in response to declining enrolments.

Any legislation that would increase parental freedom of choice and increase competition between private and public schools would most benefit those children who are presently the victims of this country's disastrous public school system. Whether this legislation steps on the toes of the National Education Association or of bureaucrats in state education agencies is another matter.

(Incidentally, Noel Epstein is a former education editor of the Washington Post and is an assistant "Outlook" editor on the Post; Marshall S. Smith is a former assistant commissioner of education, and now teaches education policy at the University of Wisconsin).
“...make sure it doesn't benefit the truly needy...”

Senator Ernest F. Hollings (D-S.C.) has opposed tuition tax credits with the statement that it is wrong to relieve the financial pressure on independent schools because they are typically selective and simply serve those families who are fleeing from the inner-city, integrated schools. "The public school, in contrast," Hollings said, "must take all comers- regardless of background, regardless of special problems."

Hollings’s two-pronged attack - that private schools are both elitist and racist - cannot stand up to an examination of the demographics of private-school enrolment. Any independent school should be evaluated against the income and racial composition of other schools in its area. In California, where important constitutional initiatives are underway to establish education vouchers or tax credits, the percentage of minority students in private schools - 22.1% - is not much different from the 27.3% in public schools.

In addition, the Coleman Report stated that because tuition tax credits would facilitate the use of private schools, they “would not increase segregation along racial or economic lines but would decrease it. ... Such policies would bring more blacks, Hispanics, and students from lower-income backgrounds into private schools.”

As for the charge that private schools cater to affluent families, Bureau of the Census figures show that family incomes of private-school students are more similar to the income distribution patterns for the whole United States than is often believed. Although it is true that a greater proportion of the public-school population came from families with incomes of less than $10,000 in 1974 (35% versus 20%), private schools derived 6% more of their population than did public school’s from the next income group ($10,000 - $15,000). Finally, in the highest income groups (more than $25,000), private schools enrolled only 2.5% more than did public schools.
“...make Washington responsible for something long considered none of its affair: subsidizing attachments to religious or ethnic groups.”

Opponents of tuition tax credits usually trot out the argument that the credits would violate the First Amendment's "establishment clause," which prohibits government from making laws “respecting an establishment of religion.” But leading constitutional scholars have traditionally maintained that the establishment clause was originally intended to be a safeguard against the establishment of any particular religious sect and was never intended to mean that government could not give encouragement to religion in general.

An interpretation of the First Amendment that absolutely excludes religion from the political life of the nation contradicts an important point made by George Washington in his Farewell Address:

Of all the dispositions and habits which lead to political prosperity, religion and morality are indispensable supports. In vain would that man claim the tribute of patriotism who should labour to subvert these great pillars of human happiness.

Edwin S. Corwin, one of the most distinguished constitutional scholars, notes:

The historical record shows beyond peradventure that the core idea of an "establishment of religion" comprises the idea of preference; and that any act of public authority favourable to religion in general cannot, without manifest falsification of history, be brought under the ban of that phrase.

The free-exercise clause states that Congress shall make no law "prohibiting the free exercise- of religion. The fact is, however, that a system that taxes everybody to support a public school system prohibits in degree the ability of those parents who normally patronize a parochial school. Under such a system, whenever the parent chooses a parochial school, he forgoes the opportunity to receive a 'free' education in the public sector. The forgoing of this opportunity, to the economist at least, is the very essence of the word "cost."
Although Epstein and Smith would like to portray tuition tax credit proposals as perverting the new conservative creed, tuition tax credits represent a true market solution to the problems of public education. What's more, they have been advocated in the United States for almost 200 years. Thomas Paine, in *The Rights of Man*, published in 1792, called for the remission of excise taxes (there were no income taxes in his day, of course) to enable people to purchase education in private schools.

With all due respect to Epstein and Smith, education tax credits are the very embodiment of a free society. That the Reagan administration and many members of Congress support the proposals should come as no surprise. That the National Education Association and members of the education establishment should oppose them is to be expected. If liberals dismayed by the prospect of tuition tax credits can't stand the intellectual heat, they should get out of the seminar.