The reputation of American schools has never been at such low ebb as it is in the late 1970s. More than half of the population are still not proficient in reading, writing, computation, and problem solving skills. Violence in schools remains a serious problem. And strikes, both of teachers and taxpayers, seem to grow in severity. A radical change is needed. What shall it be?

Many now believe that the time is ripe for more diversity, flexibility, local control, competition, and parental choice. All of these are necessary, they are convinced, to free the school system from its present over bureaucratized, over-centralized, and ‘calcified’ form. There has been some progress in these directions already. Religious groups such as the Amish have won for themselves significant legal rights to educate their own members, and parents everywhere are now successfully seeking legal alternatives that will not infringe the compulsory education statutes. Often their main motive is the protection of their children. In recent months there has appeared a rash of learning exchange networks, travel study programs, independent home study courses, tutorial instruction, and small non-public “family” schools.

But in the long run more changes are needed. For even if parents and religious groups do win the right to educate, they still cannot retrieve the taxes they pay to finance the public schools. Those who opt out have to “pay twice” for their education.

The year 1978 saw the promise of some significant breakthrough on this issue with the chance of tax credits. This proposal would have attacked the heart of the public monopoly in education in a comprehensive way. For it would have suggested emphasis on the truth that it was the individual’s own money (contributed not only by income tax but also by indirect taxes like the property tax, the sales tax, and so on)
that was being returned, instead of receiving a grant from third parties in the shape of something vaguely called “public funds.”

The Senate Finance Committee passed the Moynihan/Packwood (tax credit) bill, almost unanimously early in 1978.\footnote{My testimony before the Hearings of the Senate Finance Committee in January 1978 is reproduced in “Tuition Tax Credit Proposals: An Economic Analysis of the 1978 Packwood/Moynihan Bill.” Policy Review 3, Winter 1978} Attempts were made later in the year to pass legislation on the floor of the House (the House of Representatives had its own, similar bill). However, there was apparently triumphant resistance via the established educational bureau. The President and the Secretary of H.E.W, Joseph Califano declared solidly against the new proposal,\footnote{Tax credits for higher education were however accepted.} the latter fearing a large scale desertion from public schools - despite the fact that the tax credits were to be no more than $500. Insofar as Cailfano's fear was justified, it carried an implicit adverse parental judgement on the public schools.

Another and equally widely discussed reform is that of education vouchers. And this instrument, whereby the user of a school is paid its equivalent cash value in a voucher, spendable at the school of his or her choice, is not only the favourite of academics. Religious groups are also supporting the idea. In Missouri, for instance, groups of tax payers who have been suing 23 public school districts on the grounds that they teach religion in the form of secular humanism, have been asking for an educational voucher system as the only way to avoid violation of the First Amendment.

The current leading intellectual advocate of this scheme (a scheme that has a long history going back to Tom Paine) is the 1976 Nobel prize - winning economist Professor Milton Friedman. Friedman has always separated three levels of issues. First, whether schooling should be compulsory, second, whether it should be governmentally financed or privately financed, third, how it should be organised. His argument for vouchers is continually made on the understanding that the first two of these issues, compulsion and the degree of government finance, are put on one side. In other words, assuming that we have compulsion, and assuming that the
government is in the business of education to the extent of full, 100 percent finance, a voucher scheme would produce a better and more effective organization of government finance than the present one. That is, vouchers provide a superior alternative to a system of governmentally run as well as governmentally financed schools.

If, for instance, the government is now spending $1000 on a child’s education in a public school, Friedman’s voucher scheme would direct this same $1000, not to the school, but to the parent or guardian. The parent would not be allowed to spend it on non-educational goods. When spending it on education, however, he would be allowed to do so at the school of his or her choice.

In my opinion, the voucher system does not stand much chance of being accepted in present American circumstances. Moreover, it would incur some further dangers even if it was accepted. The organised teacher unions have stated their uncompromising opposition to vouchers, and this alone is a political reality that must be faced.

The second even more important “roadblock” is the current attitude of the supreme Court. It is clear from their recent deliberations that the Court would regard vouchers as aid from the state. The Court’s reasoning in the famous Nyquist case in 1973, treats vouchers along with tax exemptions for schooling as state aid. And under the First Amendment the state is not allowed to provide aid to parochial schools in any significant way. Since 90 percent of the nonpublic school population in America are in parochial schools the chances of a voucher system having much effect in the short run at least will therefore be very small.

It is true that the Nyquist case concerned the particular circumstances in New York where a state government was deliberately attempting to enable particular parochial schools to survive (largely in order to prevent embarrassment to the public schools.)

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It is arguable that a *universal* voucher scheme for all parents *whether in public schools or private* would have no primary effect of aiding religion. My own review of the Court’s Language in other cases besides the Nyquist leads me, however, to the opinion that they would not allow a universal voucher scheme, even on these wider arguments.

Even if the voucher system was accepted, there is another danger to consider. They would presumably be spendable in the small remaining private sector of education. At the least, the government authorities would impose some initial condition on these schools to qualify them for receiving the *government* finance that vouchers embody. Insofar as government inspectors have a prior interest in government (public) schools, there is a probability that they would begin to impose progressively more restrictive conditions on the private schools, especially where they threatened to “poach” the customers from the public schools. The ultimate result could be the destruction, or at least reduction, of the small private sector and the only remaining competitor with the public.

It is important to return to the two issues that Friedman assumes to be given or settled, the existence of compulsory legislation and the situation where government authorities finance schooling up to almost 100 percent of requirements. The first of these issues, compulsion, for all practical purposes can be taken as undisputed in the way that Friedman does.

The second issue, however, full government finance, should *not* be taken as settled. In the past, Friedman has speculated that the rationale for government finance has stemmed from the ‘external benefits’ of education. These arise where the action of an individual benefits not only himself but others in society. Society it is argued, stands to gain for instance from the existence of a literate population. It will also benefit if schooling leads to a reduction of crime and the promotion of law and order.

But the trouble with this argument is that it could apply to most things. It follows that government should be providing most of us with our everyday needs at zero
price. Every time I wash myself I provide benefits to people around me. On this argument should society provide me with free soap and free hot water? It will be replied that in this case the incentives to pursue my own personal comfort will be sufficient to secure my own cleanliness at my own cost. But if private incentives are enough in the case of cleanliness, why not in the case of education? Where is the evidence that people will not purchase education and become literate in the pursuit of their own private benefits, and in sufficient quantities to make the marginal cost of further encouragement?

We should also remember that we are considering the educational purchasing behaviour of private individuals not in the present world of high taxes but in a world where the government has not stepped in to tax them to provide them with free education. In the present world everybody pays taxes, right down to the poorest. “Free” education is purchased from revenues from regressive property taxes, sales taxes, and from many other taxes that the poor are not able to avoid. Were the poor to be excused from all these numerous taxes who is to say that they would not spend the proceeds in positively-priced education? Where is the evidence?

It has never been demonstrated that most of the poor in America today are not paying for their own free education from their own tax contributions. Remember that these contributions are collected over a lifetime. I have estimated elsewhere that a poor family contributes a total undiscounted lifetime contribution in education taxes of $7,380. We have to remember too, that the poor typically receive an education that is of a shorter duration than others. So while their cost contributions are lower than average so are their benefits. It is therefore not clear that they are not contributing enough to finance themselves entirely. If they are, and especially if means can be found to allow parents to borrow on their future incomes, then compulsion is the only form of intervention that is needed. Government operated zero price schools are superfluous, and, judging by the heavy bureaucratic overheads, excessively costly.

It is interesting that in 1976 Milton Friedman came to the opinion that the argument of external benefits to society is, after all, no longer valid as a justification for government finance of education. This means that of his three separate issues
only the first, compulsion, now remains as undisputed in his reasoning. One may now ask, if there is no argument for government providing the finance in education, why is there an argument for providing vouchers which are nothing else but tickets or checks that channel this finance through families? If we take the two issues together, the case for Friedman vouchers collapses; for there is no justified government finance to supply them. Friedman argues nevertheless, that, if we cannot take the two issues together, if we are in other words stuck with government school finance, then vouchers would be a better way of allocating it. If one has boldness to argue for vouchers however, it is difficult to see why the boldness stops at the government finance question. Why cannot the theory of government intervention be argued comprehensively in one package?

What then could be done? Radical or global overnight revolutions are out of the question. What is required in the first instance is a policy of gradualism, but gradualism in the right direction. The correct direction is indicated, in my view, in the insistence upon continuous questioning of “who pays what” in education. Consider next years inevitable financial problem in the public schools. Undoubtedly there will be yet another cost increase and this for “genuine” reasons as well as for reasons for further monopoly or teacher union development. The key strategy is to focus on the method of providing revenues for this next annual increase. The government presumably knows on whom the burden will fall. If it doesn’t then on its own admission, it is supervising a gigantic public school system in the dark, a system that certainly would not seem consistent with the Equal Treatment clause. It cannot argue that its taxes are not preventing every family from buying the same education privately.

The government therefore will be obliged, on persistent questioning, to announce its expectations about the distributions of the burdens of next year’s tax increase. Normally cost increases are financed out of marginal increases in several of the taxes, sales taxes, property taxes and so on. At this stage an estimate should be made as to how much each family with children at school will be contributing to these taxes. The next step is to insist that some of the family contributions be paid directly at the door of
the school instead of indirectly via various conventional tax payments. In this way we will establish what can be called a “marginal user tax” as an additional tax source, but one that is direct and reveals some information as to who is paying for what.

This user tax system is in effect equivalent to a fee or tuition payment system. The objection will then be heard that the clock has been put back because education is no longer “free.” This seems to be the key argument to meet head on. Its advocates always put quotation marks around the word “free” whenever they describe the public system. The proposal of the user tax made here is not one of abolishing the quotation marks around the adjective. But if education is not really free, as the advocates tacitly admit by their use of quotation marks, what is the argument against poor parents paying their conventional tax contribution in the form of a price at the door of the school? The program initially at least is a very modest one and meet the requirement of gradualism. For it is not the full price of their education that the family will be charged but merely a price sufficient to cover the marginal increase in the annual cost.

For the sake of illustration suppose it is found that parents with children in school fall into two classes - a rich class that will face additional taxes, raising from each member another $100 to meet the increase in school costs for the educational year 1978—79, and a poor class with members facing additional taxes which take from them an additional $50 for the year in question. The Proposal here is that all parents are charged $50 at the door of the school. (The rich parents will pay another $50 through increased conventional taxes)

If this policy is resolutely pressed, and if it succeeds, it will have the effect of removing one of the most entrenched illusions in the whore public education mythology, the illusion that people are getting something that other people are paying for entirely. The illusion of free education can he shattered even with the most modest weekly payments by parents. Even if a mere dollar a week is charged,
the principle will be established, the illusion will be abolished and education might be set on the correct course once and for all.4

After several years of cost increases the user charge or fee will gradually rise. People will be no worse off than they would have been if the present system was continued with. But they stand to be increasingly better off because they will be given increasing scope for choice. Every time a parent transfers his child from school A to school B he or she will now automatically transfer funds to the school of his or her choice. Because he now contributes funds directly in the form of fees, his preferences will now be considered seriously. At the same time the school that is losing customers will be placed more on the defensive since they will automatically be losing revenues. This financial discipline is the claimed virtue of the voucher system of course. What is being demonstrated here, however, is an alternative to such a system, that the courts could not strike down, and one that does not involve the “two way or round trip” of money from parents to the government and back to parents again.

Finally it may be objected that the fees will never rise sufficiently to be of much significance to the administrators of schools. This is a matter of degree, however. One would have thought that a fee paid by parents that covers even ten percent of the school finances would be of considerable marginal significance. And ten percent should be reached in a year or two. However, if one wants to give the parents even further scope, one should concentrate on the lifetime taxes that they are paying under the present system. The parents could be given the option of access to their future incomes by way of a loan scheme to service lower education. This scheme would enable them to pledge their future incomes and draw upon them so as to pay up to full cost of their education. In this form the parents would handle all the finance as in the Friedman voucher system, but with this difference. There would no longer be any ambiguity as to who is providing the finance. If it is clear that it is the parents’ own money that is being spent there can be no argument by the Supreme Court that the state is aiding religion or anything else. The remaining government intervention

4 Special arrangements and concessions would have to be made for the minority families on welfare.
will be a financial, not an educational one. It will be for the purposes of improving capital markets not for entering the education business.