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## Responses of private and public schools to voucher funding

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## ABSTRACT

The post-communist Czech Republic provides a laboratory in which to investigate possible responses to the adoption of universal education vouchers. Private schools appear to have arisen in response to distinct market incentives. They are more common in fields where public school inertia has resulted in an under-supply of available slots. They are also more common where the public schools appear to be doing a worse job in their primary educational mission, as demonstrated by the success rate of academic secondary schools in obtaining university admission for their graduates. Public schools facing private competition improve their performance. They spend a larger fraction of their resources on classroom instruction and significantly reduce class sizes. Furthermore, Czech public academic secondary schools facing significant private competition by 1996 substantially improved their relative success in obtaining university admissions for their graduates between 1996 and 1998. The rise of private schools, however, also spurred maneuvering by the administrations of public schools to preserve these schools' entrenched position, pointing out how important it is that any voucher system be simple and leave as little opportunity as possible for discretionary actions on the part of implementing officials.

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## 1. Introduction

Advocates of choice in education make a number of key assertions in support of their position.<sup>2</sup> In particular they assert that under a regime with greater parental choice three key propositions would hold. These are that:

(1) non-state or private schools would provide higher quality education to any given group of students than the state or public school alternative available to them,

(2) a sufficient number of such schools would arise to offer competition to existing state schools and provide options to students currently trapped in poorly performing schools, and

(3) public school authorities would respond by reforming and improving school quality rather than using bureaucratic regulation to stifle effective challenge to their monopoly position.

Before going further, it is important to define various school types, as they will be used in this paper. We define a school's type by its management. State or public schools are owned, financed and operated by a governmental authority, either local or national. The essence of non-state or private schools is that they are owned and managed by a non-governmental operator. Such an operator may be a religious organization, a profit-making firm, or a non-profit, self-governing organization. Financing of non-state schools varies widely across countries and, in larger countries such as the United States, across local authorities, ranging from full governmental financing to total

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<sup>2</sup> See Friedman and Friedman (1981) and Chubb and Moe (1990).

reliance on tuition income and donations.<sup>3</sup> Further complicating matters, there exist in some jurisdictions hybrid institutions that are owned by public authorities but managed by non-governmental actors. Known as “charter schools” in the United States, such schools are typically regarded as providing choice to students, although their ability to effectively challenge state competitors varies according to the rules under which they must operate, especially with respect to the number of such schools allowed to exist and to whether they must comply with the provisions of local teachers union contracts.

Empirical testing of the assertions of choice advocates has proven to be difficult for a number of reasons. In the United States, where there has been the greatest public policy debate regarding the provision of educational choice for many years, non-state schools are either fully privately financed, thereby limiting enrollment due to the limited financial ability of most parents and providing little information regarding demand for non-state schools were they to be provided without charge or, where they receive public funding (either to charter schools or fully non-state alternatives through what are commonly known as “education vouchers”), are severely capped with respect to the number of students who can be supported. Such enrollment caps invariably generate substantial excess demand for non-state schools. Thus, state-run schools in the U.S. context, along with other systems where limited governmental support for students in non-state schools caps enrollment, do not face competition at the margin and, freed from the threat of losing additional students, do not face an incentive to improve quality. This makes the testing of Proposition (3) above difficult if not impossible.<sup>4</sup>

Similarly, the fact that the distribution of schools is far from what would occur in an equilibrium with full governmental funding of students in non-state schools, the responses of potential entrants (Proposition (2)) are also difficult to evaluate. On the other hand, the existence of excess demand makes it easier to evaluate the differential success of non-state school (Proposition (1)) since it enables random assignment of students into treated and control groups.

The fundamental difficulty in testing the assertions of voucher advocates in the United States has led to interest in establishing their impact in other countries. As Hanushek (2002, p. 79) has observed: “International evidence currently offers the best chances for understanding the impacts of voucher systems, particularly the longer run implications.” Many countries provide support that follows students no matter what type of school they attend. Such a policy makes testing Proposition (1) difficult

due to selectivity issues, but facilitates the testing of Propositions (2) and (3) because, no matter what the level of enrollment in non-state schools, state schools face competitive pressure at the margin.

The evidence to date suggests that non-state schools are more likely to exist when public schools are of poorer quality. Such a result has been found for the U.S. as a whole (Figlio & Stone, 2001; Glomm, Harris, & Lo, 2005); California (Downes & Greenstein, 1996); New York (Goldhaber, 1999); Brazil (Estevan, 2009); Italy (Checchi & Jappelli, 2007); Lithuania (Chandler, 2001); Madagascar (Glick & Sahn, 2006) and Pakistan (Alderman, Orazem, & Paterno, 2001).<sup>5</sup> All of these studies, however, suffer by a lack of directly observed public school quality. They are forced to rely, therefore, on measures of inputs as a proxy for quality. In addition, most measure the situation when funding mechanisms have been in place for some time and, therefore, public schools have determined their quality knowing the competitive pressures they might face. Even so, public school quality is placed on the right-hand side of private school enrollment equations without considering issues of endogeneity.

Despite the intuitive appeal of Proposition (3) that competition from non-state schools will lead to an improvement in the quality of state schools, theoretical models suggest that the impact is ambiguous.<sup>6</sup> Given this ambiguity, as well as the lack of competition at the margin in many jurisdictions, it is not surprising that empirical research has found both the existence and absence of a positive impact, sometimes even in the same jurisdiction. Several independent studies using national data from the U.S. have found that increased competition is associated with greater public school performance.<sup>7</sup> West and Woessmann (2009) have found that a greater extent of private school enrollment (properly controlling for endogeneity) is associated with increased overall school performance across a sample of OECD countries.

A positive association between non-state school enrollment and state school performance has been reported for Arizona (Hoxby, 2003), California (Bayer & McMillan, 2009; Marlow, 2000), Florida<sup>8</sup> (Chakrabarti, 2013; Chiang, 2009; Figlio & Rouse, 2006; Hart, 2011; Rouse, Hannaway, Goldhaber, & Figlio, 2007; West & Peterson, 2006), New York (Green & Kank, 2004), Ohio (Carr, 2011), Texas (Booker, Gilpatric, Gronberg, & Jansen, 2008), and Ontario (Chan, 2009). By way of contrast, no positive effect was found in studies for Georgia (Geller, Sjoquist, & Walker, 2006), Illinois (Sander, 1999), Washington State (Simon & Lovrich, 1996), Denmark (Andersen & Serritzlew, 2006; Nannestad, 2004), and India (Pal, 2010).

Perhaps most interestingly, for jurisdictions where multiple studies have been conducted, results are often contradictory, with some finding a positive impact and

<sup>3</sup> See Toma (1996) for a discussion of the variety of funding mechanisms across countries.

<sup>4</sup> See Merryfield (2008), “The extensive restrictions and small size of those programs make them virtually irrelevant to the widely acknowledged change imperative (p. 223).” Clowes (2008) discusses the differences between “‘rescue’ efforts that simply offer school choice to parents but do not spur system improvement” (the typical situation in the U.S.) and “‘reform’ efforts that offer school choice as a means of galvanizing system improvement (p. 1).”

<sup>5</sup> See also Tooley (2009).

<sup>6</sup> See McMillan (2004).

<sup>7</sup> These include Borland and Howsen (1992), Hoxby (1995), Dee (1998) Brasington (2000), Grosskopf, Hayes, Taylor, and Weber (2001), and Hoxby (2000).

<sup>8</sup> Where even the threat of possible competition influenced public school performance.

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