

The High Cost of Seeing 'Pricelessness' as an Efficiency/Equity Trade-off Issue

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A very active Texas school choice advocate and I recently had an often heated discussion of the supposed pros and cons of more equal opportunity vs. price decontrol. We had the nearly identical, critical discussion many years prior. Mostly because I believe in a non-personal, vigorous discussion of ideas and principles, I will not name this person (X) that I mostly agree with, and greatly admire for dedication to this critical cause. A secondary reason for not naming them is concern that I might misrepresent some aspect of X's position.

Let me stake out the opposing views. First mine. The key element of an appropriately transformed school system is a high minimum amount of public funding per pupil. For leveling the field between the public school system and the independently provided schooling options, I [prefer](#) Education Savings Accounts or refundable tuition tax credits over either tuition vouchers or non-refundable tuition tax credits, but not greatly *as long as parents are free to combine their own funds with public funds when the tuition amount is more than the public funding*. Parents must be free to top off the high minimum public funding per pupil amount, but that amount should be high enough that competition forces many schools to accept the per pupil public funding as full payment. So, in other words, the public funding amount should be high enough to yield AT LEAST one 'free' high quality schooling option for every child. That higher income parents are better able to top off the public funding amount yields some inequality of opportunity, which many people, including X strongly object to. Ironically, and sadly, JDM vs. X is a semi-replay of Coons/Sugarman vs. Milton Friedman disagreement on topping off of vouchers that diluted the

support of California Prop 174, but probably not enough to change the outcome; defeat of Prop 174 by a 2-1 margin. Nearly 25 years later infighting on the top-off ban could divide the pro-choice movement enough to be the margin of defeat. That is one reason to vigorously debate the issue, and it's why I prefer price control-immune tuition tax credits and Education Savings Accounts (ESA) over price control-vulnerable (via top-off ban) tuition vouchers.

My position is that some opportunity gap is unavoidable, and not entirely negative. Higher income means higher earnings, and why not let higher income folks choose to be the [guinea pigs](#) for initially expensive new instructional approaches; get all the kinks out before more vulnerable low income kids get into a new approach. Part of the unavoidable is that we can't stop higher income folks from spending more on their kids, nor should we want to. For example, no one is planning to ban purchase of after school tutoring. Extra schooling for higher income kids may create an opportunity lag/gap, but it doesn't make lower income kids worse off. And that gap will be much smaller than many people expect for a number of well-established reasons. First, freedom to top off public funding will free the hundreds of millions (maybe billions) now being spent by philanthropic organizations like the Walton Family Fund to support schools of choice to instead finance means-tested top-off funding. Secondly, it is very important for schools to not be donor-dependent, and for subsidy dollars from any source to NOT be allocated directly to producers. Subsidy funds should always directly support service consumers. Third, where shared financing is allowed (Chile), the co-payment amounts tend to be small. An instructional approach good enough in terms of fit for many children to be worth topping off public funding tends to attract imitation and the resulting competition drives the price down.

That doesn't feel close enough to equal opportunity for X. X's position is that something close to the per pupil funding of traditional public schools should be at parents' discretion to allocate to the private or public school of choice; something like \$10,000/child/year for private

school users to generate some fiscal savings when families opt out of their assigned traditional public school, but no topping off! For the sake of discussion, let's stick with X's casual mention of the annual \$10,000 per child figure. So, X would prefer to ban top-offs. X believes that \$10,000 would be high enough to allow that. For lower amounts like the [Nevada ESA](#) \$5000 or the Texas SB 276 (not passed) approximately \$6500, top-offs are needed because \$5000 - \$6500 does not buy enough by itself. So, with an amount sufficient to access many current menu items, X would ban top-off funding. So, if a family prefers an \$11,000 option, X would not allow them to pay the tuition with the \$10,000 public funding plus an annual \$1000 co-pay/top-off from their personal funds; not fair to those that would struggle to find the \$1000 top-off payment. X says if you want more than \$10,000 worth of formal schooling, you have to pay the full amount out of pocket, and still pay the taxes that support the public school system and the families willing to settle for \$10,000 worth of formal schooling. Very few families would have the wherewithal to do that, and only super wealthy families in large cities would be able find many options with enough customers to be viable, privately. So, without top-off permission, the per-pupil public funding level becomes a virtual ceiling on what instructional approaches can cost.

X's top-off ban would create price control; something that is devastating in K-12 education now, and always has been in every industry in which it has existed. That is where some of the conversation got heated. ***You can't casually dismiss that history because allowing top-offs feels too unequal.*** Price control forces central planning of the menu of schooling options. All of the options would have to cost less than \$10,000/child right off the drawing board. Since costs fluctuate, innovation will be limited to instructional approaches that would likely cost comfortably less than the \$10,000 ceiling amount. Taxpayers will overpay for instructional approaches that would otherwise competitively cost less than \$10,000.

Am I insisting on a 'free market' approach? No! I'll have to explain how/why my bottom lines on school system transformation policy fall far short of a free market setting in a future blog post. But like Milton Friedman stance in the 1993 Prop 174 debate with Coons and Sugarman, a prominent role for decentralized planning through market-drive price change is one of those bottom lines. I will not be guilty of hope triumphing over experience that confirms theory (what we should expect).