

Child-Centred Funding

Of all the schemes for equalizing educational opportunity, tax credits are the most promising.

By Andrew Coulson

Efforts to make good educational opportunities available to all families have been going on for thousands of years. Though some have been more effective than others, none has worked as well as we might like.

State-run public schools are only the most recent attempt at providing universal access to education, and they have proven extremely problematic. Far from diminishing the opportunity gap between rich and poor, they have exacerbated it.

Despite 75 years of constant reforms to the system and a 14-fold increase in inflation-adjusted per-pupil spending, literacy levels have stagnated or declined.

Roughly a third of Ontario's grade 10 students recently failed the province's test of reading and writing. Illiteracy, moreover, is concentrated among disadvantaged students, those whom public schooling is most committed to helping.

Over the years, market systems have typically done a better job of serving low-income families, but the level of financial assistance available under earlier systems has generally been both limited and irregular.

Modern tuition voucher and tax-credit plans attempt to remedy those deficiencies by combining the desirable qualities of market education with carefully-designed financial assistance. Vouchers and tax credits come in many forms.

Under voucher programs, parents are allocated a certain amount of state education funding that they can use at a state-approved school, public or private. Conditions for approval can include such things as admission policies that do not favour any racial or ethnic group and the absence of any devotional religious instruction.

Targeted Vouchers

Targeted vouchers are typically allocated on the basis of financial, educational, or geographic need. Under Milwaukee's voucher program,

for instance, students qualify for a voucher only if their family income is no more than 1.75 times the poverty level.

Another approach to targeted vouchers is to offer them to families whose public schools are deemed to be failing — an approach taken by Florida's A+ Plan for Education.

A third approach to targeted vouchers is to offer them to families who live in districts without public schools. Maine and Vermont have long-standing, statewide voucher programs of this kind.

Universal Vouchers

Unlike targeted vouchers, universal vouchers are given to all families with school-age children, without regard to income, the quality of local public schools, or location. No universal voucher program currently exists in the United States or Canada.

Education tax credit plans can be structured in an almost infinite number of ways. The tax credit proposal outlined here is a non-refundable credit composed of two parts. The first part is a parental-choice credit for taxpayers with dependent school-age children.

Parental-Choice Tax Credit

Only taxpayers whose children are not enrolled in public schools would be eligible for this credit. The credit size would be based on the average cost of education for a child of a given age, perhaps 75% to 100% of the average tuition charged by local independent schools. An income limit could also be imposed, in order to target families who truly need it.

Since the credit is non-refundable, it would benefit only those families with a tax liability. Families with little or no income, and hence little or no tax liability, would be provided for through the credit's second component — a scholarship credit.

Scholarship Tax Credit

This component would allow businesses and individuals to write off donations made to scholarship-granting organizations on a dollar-for-dollar basis, up to some preset limit. The scholarship-granting organizations would then use these donations to provide tuition assistance to low-income families. In order to qualify, scholarship granters would have to demonstrate that some minimum percentage of the donations they received was actually spent on tuition scholarships for low-income families.

Arizona legislators passed a modest \$500 scholarship tax credit in 1997. Despite being tied up in court until late 1999, the number of scholarship-granting organizations in the state grew from 2 to 34 in its first two years of existence.

Even while the court challenge was still going on, 30,000 taxpayers used the credit prior to the 1999-2000 school year, raising \$13.7 million for distribution as scholarships. With the credit now on firm legal ground, those figures will most likely continue to rise, though the \$500 cap on the credit size will inhibit growth. Even with the current cap, court documents suggest the program could generate \$75 million for scholarships annually.

The single most important difference between education credits and vouchers is that tax credits do a better job of preserving direct parental financial responsibility. In addition, tax-credit programs avoid the use of public money, thus being more likely to protect the education market from regulatory encroachment.

While not perfect, tax credits offer the best hope for bringing educational excellence within reach of all families.

*(Adapted with permission from a much longer article at www.cato.org. Mr. Coulson is the author of *Market Education: The Unknown History*.)*