

SPECIAL REPORT

No. 289 | AUGUST 21, 2024

What the Education Choice Movement Can Do Next: Personal-Use Tax Credits for K–12 Education

Matthew Ladner, PhD

What the Education Choice Movement Can Do Next: Personal- Use Tax Credits for K–12 Education

Matthew Ladner, PhD

SPECIAL REPORT

No. 289 | AUGUST 21, 2024

CENTER FOR EDUCATION POLICY

About the Author

Matthew Ladner, PhD, is Senior Advisor for Education Policy Implementation in the Center for Education Policy at The Heritage Foundation.

This paper, in its entirety, can be found at <https://report.heritage.org/sr289>

The Heritage Foundation | 214 Massachusetts Avenue, NE | Washington, DC 20002 | (202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

What the Education Choice Movement Can Do Next: Personal-Use Tax Credits for K–12 Education

Matthew Ladner, PhD

The United States faces substantial cultural, political, and military challenges, yet remains hampered by a severely underperforming and costly system of K–12 education. Far from an unhappy accident, American school districts behave broadly as their major interest groups desire, and the demand for non-district K–12 options continues to greatly exceed the supply. State lawmakers have taken unprecedented steps to create and expand private education choice programs, but families require further action. Creating a demand-driven K–12 education system requires multiple robust choice programs. Several states passed modest personal-use tax credits for non-public education expenses. Oklahoma lawmakers passed the most robust version of this policy to date in 2023. State lawmakers should pass an optimized personal-use tax-credit program in every state to enhance family control over K–12 education across the country.

You have no idea what sort of people the Athenians are. They are always thinking of new schemes and they are quick to carry them out. They make a plan: if it succeeds, the success is nothing in comparison to what they are going to do next.

—Corinthian Ambassador to Sparta, in *History of the Peloponnesian War*

Like the Corinthian ambassador’s description of the Athenians, the education choice movement moved from one success to the next in the early 2020s. Far more success is required, however, for a K–12 system that will help to meet the nation’s considerable looming challenges.

In recent years America’s K–12 choice movement achieved unprecedented achievements. By developing a necessary self-reliance during the pandemic shutdowns, American families created do-it-yourself “pandemic

pods,” mainstreaming a major innovation of home-schooling (co-ops) in the process. Private and charter school enrollment expanded. In 2022, Arizona and West Virginia policymakers became the first to extend education savings account (ESA) program eligibility broadly to students in their states. In 2023, their compatriots in Arkansas, Florida, Indiana, Iowa, North Carolina, Oklahoma, Ohio, and Utah followed suit, enacting universal educational choice policies. Lawmakers in New Hampshire, Pennsylvania, South Carolina, and Wisconsin also passed large expansions in 2023. The 2024 legislative season has already seen Alabama lawmakers adopt a universal education choice policy and promises additional advances.

Yet this progress is not enough. Indeed, these successes should be nothing compared to what proponents of education freedom are going to do next.

America’s K–12 system needs fundamental reform. Stafford Beer, a British academic, coined the term that the “purpose of a system is what it does,” known as POSIWID for short. Beer explained that the stated purpose of a system is sometimes at odds with the intentions of those who design, operate, and promote it. “There is after all no point in claiming that the purpose of a system is to do what it constantly fails to do.”¹

Applying POSIWID to the American K–12 education system leads to the inevitable conclusion that the system operates to increase spending and adult employment. Improved student academic achievement is clearly a secondary concern. (See Chart 1.)

State constitutional guarantees protect funding for K–12 education, making it as close to a permanent institution as one can find in American life. Decades of “reform” attempted to implement this guarantee via localized government monopolies. Broadly speaking, this effort has gone very poorly for many students and educators, to say nothing of the taxpayers. For decades, Americans naively invested an ever-increasing amount of money into the public school system in hopes of fixing it. (See Chart 1.) Throwing more money at the problem has not worked before, it is not working now, and it will not work in the future.

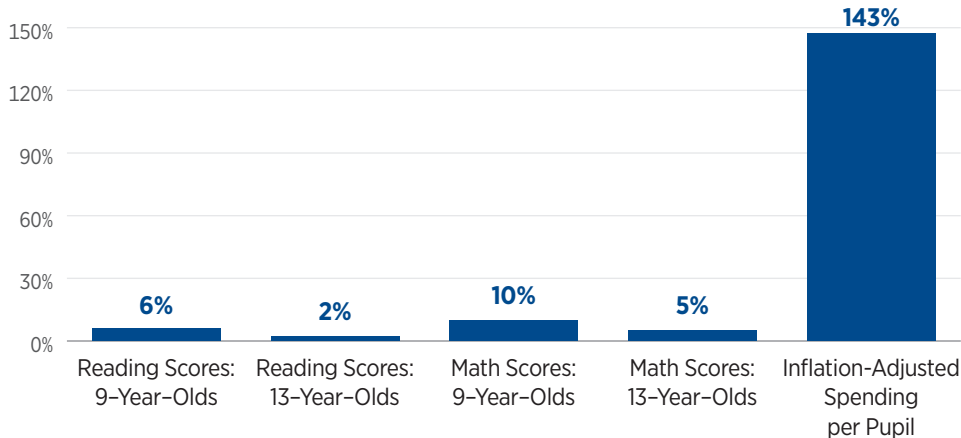
The COVID-19 pandemic convinced many families that they had to take control of their children’s education. When American parents had the chance to view their children’s classrooms in 2020 in “Zoom school,” many realized that the time had come to adopt self-reliance in education. A new era dawned.

As detailed below, state lawmakers should adopt a “combined arms operation” mentality favoring the operation of multiple forms of choice programs simultaneously. Despite recent breakthroughs in adopting broad private choice options, the average American family retains a “double payment

CHART 1

Increases in NAEP Long-Term Reading and Math Scores: Trends and National Inflation-Adjusted Spending per Pupil

PERCENTAGE INCREASE, 1971–2020



SOURCES: National Assessment of Educational Progress, “NAEP Long-Term Trend Assessment Results: Reading and Mathematics,” <https://www.nationsreportcard.gov/ltr/?age=9> (accessed July 26, 2024), and *2023 Digest of Education Statistics*, Table 236.55, “Total and current expenditures per pupil in public elementary and secondary schools: Selected school years, 1919–20 through 2020–21,” National Center for Education Statistics, https://nces.ed.gov/programs/digest/d23/tables/dt23_236.55.asp?current=yes (accessed July 26, 2024).

SR289 heritage.org

penalty” if parents prefer a private education for their child, paying both public school taxes and private school tuition or homeschooling expenses.

Research has established a wide array of benefits associated with choice programs, both for participants and non-participants through positive competition effects. The benefits of choice for participants include, and are not limited to, higher levels of high school and college graduation, tolerance of societal diversity, civic participation, and test scores and lower rates of criminal activity.² Likewise homeschooling has numerous benefits for participants.³ Critically, scholars have found clear evidence of improvement in district academic outcomes when faced with higher levels of competition.⁴

Well-designed choice programs can reinforce the public and private delivery of education in a virtuous cycle. Lawmakers in Arizona and Florida have adopted robust public choice programs and multiple private choice programs. Rather than relying on a single choice mechanism, the goal of lawmakers should be to strengthen all forms of choice: magnet schools, charter schools, district open enrollment, homeschooling, scholarship

tax-credit programs, school vouchers, and ESA programs. State lawmakers should also encourage innovation in choice-program design and develop new tools to expand educational pluralism.

States face massive challenges in the form of an aging population driving up the demand for health care, and a “baby bust” that began in 2008. These problems will be a challenge for state governments, but they will have no choice but to address them. Higher need for state health care spending, slower revenue growth, and a federal government that has yet to show either an interest (or ability) in addressing fiscal imbalances face state lawmakers in the immediate future.

The federal government’s plan to cope with massive unfunded entitlement liabilities and societal aging remains entirely unclear at the time of this writing. Prudent state lawmakers, however, would be making plans for the federal government which provides less than 35 percent of their budget in the future.⁵ Policymakers must find ways to deliver state services more effectively and in a more cost-effective fashion. This must include education, which currently stands as both costly and, far too often, ineffective.

To help to alleviate many of these looming fiscal challenges and better meet the needs of families, state lawmakers should create a substantial and uncapped refundable education tax credit. As detailed below, state lawmakers can implement such a credit as a new option for families whether they have previously enacted other choice programs or not. Many states have enacted multiple types of private choice programs that operate simultaneously; a refundable tax credit should be added to the menu of options.

This *Special Report* lays out the scale of challenges in the near future, and then offers a novel solution for the dire state of K–12 education in this country. Three megatrends will challenge Americans to adapt in the years ahead. First, the retirement of America’s massive baby boom generation poses significant challenges for state budgets. Second, Americans began a baby bust in 2008 which currently shows no sign of abating. This relatively small generation, which was born after 2008 and had its educations impaired by the poor response to the COVID-19 pandemic, began entering the workforce in 2024.

Third, a trend toward on-shoring industry started over a decade ago in response to low American energy prices and has experienced growing momentum since the supply-chain disruptions of the COVID-19 pandemic. The demand for American labor will be growing while age demography will be limiting the supply of workers. Finally, the growing overhang of federal unfunded entitlement liabilities and debt will disrupt business as usual at the federal, state, and local levels of government.

These megatrends—creating mega-challenges—have been underway for a decade or more. Other factors—both positive and negative—will affect the ability of the nation to navigate these challenging trends. America will require resolve and ingenuity to navigate the demands of the future. However, American public K–12 education remains in a state of widespread and malignant regulatory capture. School districts have proven highly resistant to improvement efforts from the top down. Assuming that Americans still want to equip students with the knowledge and skills necessary for success and for responsible exercise of citizenship, the time has long passed to make alternative plans. The necessary reforms will only come from the bottom up through policies that restore parental control over education.

During the pandemic, American parents accelerated existing efforts to bypass the dysfunctional public school system. Like Alexander the Great cutting the Gordian knot, families have decided to stop trying to fix dysfunctional school districts and are getting their children out of them. Between the COVID-19 enrollment losses, an ongoing baby bust, and the growing self-reliance of families, peak school district enrollment clearly lies in the past.

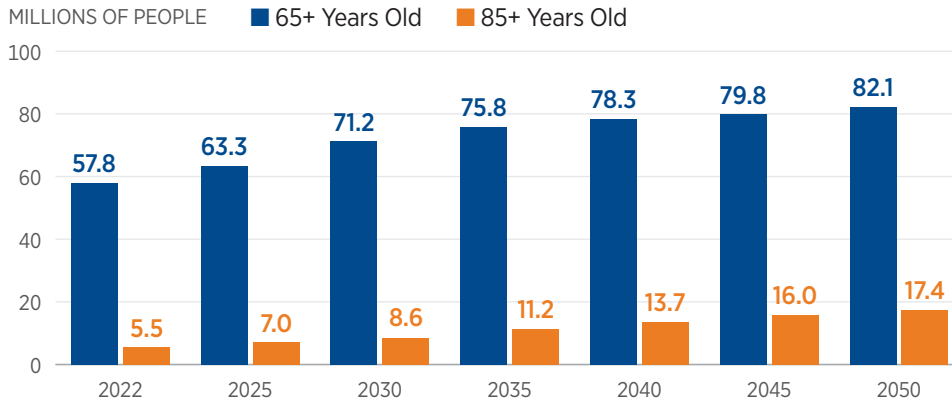
Mega-Challenge One: Baby Boomer Retirement

Half of America’s massive 73 million strong baby boom generation reached the age of 65 in 2022. For the remainder of this decade, an average of 10,000 more baby boomers will reach 65 *daily* until 2030, when all surviving boomers will be 65 or older. After 2030, the elderly populations are projected to continue to grow.

The growth of both elderly and “super elderly” (85+) populations creates challenges for society. The elderly exit the workforce at high rates and begin drawing on entitlement programs such as Social Security and Medicare. Health care spending per person doubles between age 70 and 90 on average and is highly concentrated, with the top 10 percent of cases consuming 52 percent of total medical spending.⁶ Thus a 32 percent increase in the 85-and-older population between 2022 and 2030 represents a substantial societal challenge. The challenge continues to worsen after 2030 (see Chart 2) with the 85-and-older population projected to more than double between 2030 and 2050.

The elderly generate less than average tax revenues because they have largely exited the labor force.⁷ Most discussions of age demography in America inevitably drift toward the looming solvency challenges in federal entitlement programs, the fourth megatrend challenge discussed below.

CHART 2

U.S. Census Bureau Projections for Ages 65+ and Ages 85+

SOURCE: U.S. Census Bureau, “2023 National Population Projections Tables: Main Series,” <https://www.census.gov/data/tables/2023/demo/popproj/2023-summary-tables.html> (accessed July 26, 2024).

SR289 heritage.org

This trend will affect states sooner rather than later. Federal funds provided 35.3 percent of total state expenditures in fiscal year 2023, meaning that the federal government’s fiscal problems could quickly and severely impinge upon state budgets.⁸

The aging of the population, however, will directly impact state budgets and, thus, K–12 education, indirectly, through the federal government. Retirees have on average passed their peak earning years to live on a fixed income, while also having passed their peak consumer-spending and tax-paying years as a cohort.

Northwestern University economist Robert J. Gordon forecasted a decelerating rate of economic growth for the American economy in a National Bureau for Economic Research paper. Gordon described the negative impact of an aging population on the rate of economic growth as “widely recognized and noncontroversial.” Gordon noted that inflation-adjusted gross domestic product (GDP) per capita increased by 2 percent per year between 1891 and 2007, but Gordon forecasted a decline to an annual rate of 0.9 percent for 2007 to 2047.⁹ Between the first quarter of 2007 and the second quarter of 2023, the average inflation-adjusted GDP per person has averaged 1.2 percent—a result worryingly consistent with Gordon’s overall slowing hypothesis.

In addition to slowing down growth and state revenue, the elderly also disproportionately consume public health care spending both in the Medicare program (funded exclusively by the federal government) and the Medicaid program, administered by the states with federal assistance. Americans spent 5 percent of GDP on health care in 1960, but 18 percent in 2023, and a projected 20 percent in 2031.¹⁰ Increased public health spending will necessitate some combination of lower spending on other priorities (such as education), higher taxes, or (for as long as it can be sustained) higher levels of debt. The latter is unsustainable. Raising taxes on a smaller tax base is counterproductive and insufficient. Those realities render reductions in spending the only viable and promising solution.

As baby boomers retire and the baby bust continues, the demand for increased public health spending will increase, supported by a very well-organized constituency that votes at high rates (seniors). Meanwhile the percentage of the population with school-age children will diminish for as long as the baby bust continues, as discussed below. The likely squeeze on non-health spending comes with a dilemma: America needs well-educated young people to produce innovations and economic growth to better navigate the future, but the country will need to achieve these vastly improved results with much more modest spending.

The stakes for equipping as many children as possible with the knowledge and skills to meet the challenges ahead and to exercise the duties of citizenship are higher than ever.

Mega-Challenge Two: The Baby Bust

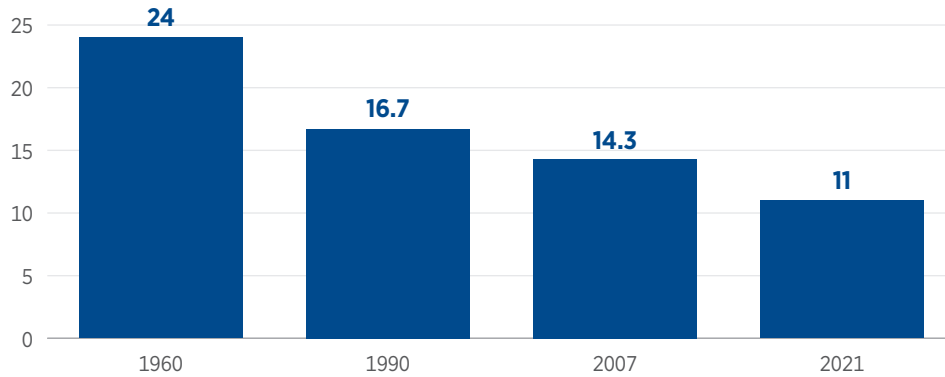
On deck to enter the workforce as the huge baby boomer generation exits is the baby bust generation. This generation had its education marred by the nation's destructive response to the COVID-19 pandemic. Many students simply evaporated from public schools during this period, followed by a substantial increase in absenteeism once the schools reopened. Nationwide, the rate of chronic absenteeism—defined as missing at least 10 percent of school days, or 18 days in a year—nearly doubled between 2018 and 2022, to 28 percent of students.¹¹

The nation was already suffering from acute labor shortages at the half-way point of baby boomer retirement in 2022. In 2024, the oldest of the baby busters reached the age of 16—the entry age for labor force participation.¹²


In 2022, 3,389,088 people in America died, 3,661,220 children were born, and the country had a net increase of about 1,000,000 people through net immigration. Underneath the appearance of relative aggregate population

CHART 3

Births per 1,000 People in the United States



SOURCE: World Bank, "Birth Rate, Crude (per 1,000 People)-United States," <https://data.worldbank.org/indicator/SP.DYN.CBRT.IN?locations=US> (accessed July 26, 2024).

SR289  heritage.org

stability lies a very large change in age demography: a large increase in the American elderly and a large decrease in birth rates. Births per 1,000 people declined by more than 50 percent between 1960 and 2021 from 23.7 births per 1,000 people to 11. The birth rate declined 23 percent from the most recent peak just before the advent of the Great Recession in 2007. The Census Bureau projects that the 65-and-older cohort will exceed the 18-and-under population in the late 2030s and for the gap to grow in subsequent decades.¹³

Not surprisingly, the National Center for Education Statistics projects ubiquitous declines in K–12 enrollment across states by the year 2030.

The National Center for Education Statistics projected only a handful of states project to show public school K–12 enrollment increases—Arizona, the Dakotas, Minnesota, Tennessee, and Utah—and those projected increases are modest (4.5 percent in Utah and close to zero everywhere else). In 2023, the state with the largest projected increase by 2030 (Utah) suffered a decline in public school enrollment—due to a strong increase in homeschooling.¹⁴

Demographics rather than choice will prove the main driver of the need for public school adjustments. Many states will find themselves overbuilt from a district facility standpoint in the years to come, but enrollment changes unfold incrementally and so, too, could facilitate retirement.

TABLE 1

Public School Enrollment Projections by State, 2022–2030 (Page 1 of 2)

	Fall 2022	Fall 2023	Fall 2024	Fall 2025	Fall 2030	Trend, 2022–2030
Alabama	753,900	756,100	757,500	755,600	740,400	-1.8%
Alaska	133,100	133,400	133,400	133,100	128,500	-3.5%
Arizona	1,144,400	1,149,100	1,152,300	1,152,400	1,155,000	0.9%
Arkansas	497,600	498,700	499,600	497,500	487,700	-2.0%
California	6,005,300	5,934,900	5,854,800	5,786,200	5,425,900	-9.6%
Colorado	883,200	875,800	867,100	857,300	817,300	-7.5%
Connecticut	512,300	509,100	505,400	500,500	475,600	-7.2%
Delaware	141,500	141,900	142,300	142,100	137,600	-2.8%
Washington, DC	98,000	98,900	99,500	99,300	94,700	-3.4%
Florida	2,814,600	2,806,000	2,791,000	2,775,800	2,704,600	-3.9%
Georgia	1,738,100	1,723,000	1,707,200	1,686,600	1,606,600	-7.6%
Hawaii	177,200	175,000	173,200	170,900	158,900	-10.3%
Idaho	314,300	315,000	315,400	314,700	312,000	-0.7%
Illinois	1,924,000	1,919,600	1,914,100	1,897,500	1,800,900	-6.4%
Indiana	1,051,400	1,052,100	1,050,300	1,045,600	1,017,800	-3.2%
Iowa	521,500	521,700	520,700	518,300	505,900	-3.0%
Kansas	484,500	480,700	476,200	470,300	440,300	-9.1%
Kentucky	665,700	661,800	657,500	650,900	626,500	-5.9%
Louisiana	705,000	702,100	699,600	694,600	671,700	-4.7%
Maine	173,000	171,600	170,300	168,700	161,800	-6.5%
Maryland	903,100	902,100	900,800	895,800	859,700	-4.8%
Massachusetts	927,200	923,200	920,100	913,700	879,900	-5.1%
Michigan	1,427,600	1,418,900	1,409,200	1,395,800	1,329,900	-6.8%
Minnesota	902,200	908,300	912,800	913,100	903,100	0.1%
Mississippi	429,800	420,800	412,000	401,500	364,700	-15.1%
Missouri	882,700	873,100	862,100	848,500	792,200	-10.3%
Montana	147,400	146,600	145,200	143,700	136,800	-7.2%
Nebraska	334,400	334,900	335,100	336,100	329,200	-1.6%
Nevada	494,300	494,000	492,400	489,400	476,300	-3.6%
New Hampshire	165,900	163,200	160,500	157,600	144,600	-12.8%
New Jersey	1,393,000	1,388,200	1,382,300	1,372,000	1,307,600	-6.1%
New Mexico	311,400	305,200	299,100	292,100	263,700	-15.3%
New York	2,613,000	2,592,700	2,573,000	2,547,000	2,399,100	-8.2%
North Carolina	1,545,000	1,545,600	1,545,400	1,541,500	1,524,800	-1.3%
North Dakota	120,400	121,700	122,600	123,000	123,500	2.6%

TABLE 1

Public School Enrollment Projections by State, 2022–2030 (Page 2 of 2)

	Fall 2022	Fall 2023	Fall 2024	Fall 2025	Fall 2030	Trend, 2022–2030
Oklahoma	717,300	719,600	719,200	715,900	692,900	-3.4%
Oregon	584,300	581,900	577,800	571,700	538,900	-7.8%
Pennsylvania	1,712,900	1,710,100	1,705,200	1,694,800	1,626,600	-5.0%
Rhode Island	139,500	138,400	137,500	136,000	130,200	-6.7%
South Carolina	790,300	792,100	792,400	789,300	772,200	-2.3%
South Dakota	145,500	146,700	147,200	147,200	145,800	0.2%
Tennessee	1,014,100	1,018,800	1,022,000	1,023,300	1,029,900	1.6%
Texas	5,495,100	5,481,200	5,469,300	5,442,300	5,311,300	-3.3%
Utah	710,700	718,700	724,600	727,900	742,900	4.5%
Vermont	83,600	82,500	81,500	80,300	74,600	-10.8%
Virginia	1,254,300	1,243,900	1,235,200	1,224,000	1,177,500	-6.1%
Washington	1,096,900	1,092,700	1,086,600	1,077,200	1,033,500	-5.8%
West Virginia	249,100	243,400	237,600	231,000	202,400	-18.7%

SOURCE: National Center for Education Statistics, “Enrollment in Public Elementary and Secondary Schools, by Region, State, and Jurisdiction: Selected Years, Fall 1990 through Fall 2030,” https://nces.ed.gov/programs/digest/d21/tables/dt21_203.20.asp (accessed July 29, 2024).

SR289  heritage.org

One might view the bust as beneficial in the short term: Both the elderly and the very young generate limited tax revenue as well as substantial societal costs in the form of health care and education expenses, respectively. And recent decades have seen the largest increases in per-pupil spending in the K–12 systems in states even with *shrinking* K–12 enrollments.

In previous decades, many states *increased* per-pupil spending as K–12 enrollments either stagnated or declined. The states with the largest increases in per-pupil funding had either zero or negative enrollment growth, whereas fast-growing states like Arizona, Florida, Nevada, and Texas had lower levels of growth in per-student expenditure.¹⁵

The states with the highest per-pupil spending increases had either low, near-zero, or negative enrollment growth. This pattern seems unlikely to persist into the future, as it was enabled by a large majority of the baby boom generation being in their prime earning (and thus also their peak tax-paying) years. The increase in per-pupil spending allowed K–12 systems

to continue the increase in hiring, which suited the purposes of the district employee unions, if not students or taxpayers.

While the “increase per-pupil spending to make up for a lack of students” trend seems unsustainable, a decrease in spending will not proceed automatically. Moreover, any short-term benefit of a baby bust creates medium-term to long-term societal problems.

Mega-Challenge Three: Reshoring of Industry

A “re-shoring” of multiple industries began more than a decade ago due in large part to the shale-oil revolution producing the world’s lowest prices for natural gas. As noted by Citibank, “natural gas now costs 3–4 times more in Europe than it does in the United States, thanks to the US domestic shale gas boom. The natural gas boom should benefit companies that have high exposure to the US oil & gas, petrochemicals, steel and fertilizer sectors.”¹⁶ Many industries rely on natural gas to create a variety of products or else have energy-intensive needs. The United States became the preferred destination for such industries years ago, and this turned out to be the start of a trend.

The COVID-19 pandemic reinforced an existing trend. Companies are actively attempting to insulate supply chains from political risk and to cut time to market and seeking to respond to foreign wage inflation. Companies are also seeking to reshore to minimize currency risk.¹⁷ Deloitte reported the results of a survey of 350 corporate presidents in 2022:

Transportation executives whose companies have begun preparing for near-shoring anticipate 20% of Asia-originating freight will move to closer-proximity markets by 2025...doubling to 40% of freight originations by 2030. Manufacturers’ expectations are similar, and 62% of them have begun this process already. Survey respondents expect agriculture, apparel, and consumer electronics to see supply lines being reconfigured the most.¹⁸

The continuing exit of the boomers and the relative scarcity of young people entering the workforce has the effect of tightening labor markets. The desire to simplify supply chains and leverage America’s comparative advantage in energy costs will be in tension with a labor force which is saying goodbye to a massive baby boom generation and ushering in a baby bust generation.

Age demography shapes the environment in which the federal government and states make public policy. During the 1980s and 1990s, America’s

huge baby boom generation entered the prime earning years of their careers. The American economy grew, as did federal tax revenues. Currently, the baby boomers are retiring from the workforce and being replaced by a relatively small generation, possibly sending the process into reverse. States will have much larger elderly populations, which will create demand for health care rather than education spending. The demand for American workers has increased, but the supply of labor faces constraints.

America's K-12 System Is Broken *on Purpose*

All these challenges would be easier to address if America had a highly productive K-12 education system busily equipping young people with the knowledge, skills, and habits necessary for success and responsible citizenship. This, however, is not currently the case.

American K-12 education has many problems, but the central problem is *politics*. Americans received more than a few warnings about this problem many years before it fully metastasized. John Stuart Mill did his best to sound the alarm in 1859 in *On Liberty*, in which he warned that the establishment of a public school system would lead to endless social conflict:

Were the duty of enforcing universal education once admitted, there would be an end to the difficulties about what the State should teach, and how it should teach, which now convert the subject into a mere battle-field for sects and parties, causing the time and labour which should have been spent in educating, to be wasted in quarrelling about education. If the government would make up its mind to *require* for every child a good education, it might save itself the trouble of *providing* one.¹⁹ (Emphases added.)

Mill went on to describe a never-ending conflict of various factions to control the “mould” needed to shape young people into their preferred image. Mills recommended a minimal public role in education (limited to subsidizing the fees of students in low-income families) while fully embracing a pluralistic system of education marked by diversity and variety.

Most European countries now operate a pluralistic system of schooling with both religious and secular options. Americans ignored Mill and went about setting up “general state educations.” This experiment has not gone as planned.

In the 1960s, employees of school districts unionized. These unions became among the most powerful interest groups operating at the state level. Dominating low-visibility and low-turnout school board elections

proved to be a manageable challenge for these groups. By the 1980s nearly all school districts outside the Southern states had been organized.²⁰

The operation of many districts became constrained by collective bargaining agreements which the unions negotiated with school boards elected with the support of the unions. Increasing wages and hiring (and thus union dues revenue) was at the top of the agenda. (See Chart 1.) Collective bargaining agreements also often effectively made it impractical to terminate the employment of ineffective staff members.

Significant developments in the 1970s included the passage of what became known as the Individual with Disabilities Education Act (IDEA), requiring districts to admit and provide “free and appropriate public education” to children with disabilities. While IDEA represents landmark civil rights legislation, the system for developing “Individual Education Plans” for students with disabilities became highly contentious and litigious, and for too many students focused more on process than outcomes.

By the early 1980s a blue-ribbon federal panel warned of a “rising tide of mediocrity” in American schooling.²¹ States made various attempts to improve outcomes, many of which included greater public spending, but which also began to include modest efforts not a part of the union playbook—such as the use of standardized tests to hold public schools “accountable.”

By 1990, Stanford University political scientists John Chubb and Terry Moe were able to confidently (and correctly) note that the reforms of the 1980s had broadly and predictably failed. Chubb and Moe argued persuasively that the deficiencies of the public school system were not the result of a lack of resources but the natural consequences of politics.²² Unions were and remain the most powerful political actors and had powerful incentives to maximize district employment and to eschew blame for academic deficiencies.

The incentives driving the strongest K–12 interests drive the “rising tide of mediocrity” rather than a mere lack of focus or resources. Echoing the earlier work of Nobel Prize-winning economist Milton Friedman, Chubb and Moe called for the creation of market forces through education choice programs to improve America’s K–12 system.

Between 1990 and the outbreak of the COVID-19 pandemic in 2020 state lawmakers passed a variety of programs to expand choice in K–12 education: Lawmakers made homeschooling legal in all 50 states. A large majority of states passed charter school laws, and many passed statewide statutes on district open enrollment. Gradually, a majority of states passed school voucher programs (the first in 1990), tax-credit scholarship programs (the first in 1997), and, most recently, ESAs (the first in 2011). Each of these

programs faced fierce opposition from education unions and their allies, and opponents often achieved cunning victories by limiting programs despite their passage.

Lawmakers created a large majority of these programs with severe constraints. Limits included politicized charter authorization and restricted private choice eligibility. While there was ample evidence of benefits associated with many charter and private choice programs, none of them individually constituted a “game changer.” Analysts found that the total amount of K–12 choice—from all sources and programs in combination—was associated with faster rates of statewide academic growth.²³ Yet, states with robust charter school policies, multiple private choice options, laws that respected homeschool autonomy, and strong open enrollment practices were exceptions rather than the rule.

The COVID-19 pandemic constituted a black swan event in the history of American K–12 education and an utter catastrophe for a great many students. Low-turnout and low-visibility elections enable unions and associations to exercise a great deal of influence over the composition of school boards. Increasingly, American teacher unions have strong ideological ties to leftwing causes. When pandemic-era remote schooling provided parents with a window into the classrooms of their children, many felt deeply disturbed by what they saw.

Some district leaders wisely attempted to calm such controversies by emphasizing that they taught state academic standards rather than political agendas. Others, however, attempted to obfuscate before doubling down. For example, over the course of a few months, American families were treated to claims that critical race theory does not exist, and then that it was an obscure theory discussed only in law schools. Finally, echoing John Stuart Mill’s warning of the “mould,” the unions and their allies seemed to settle on the notion that critical race theory represents “real history” that must be imposed on everyone for the greater good. In other words, “it’s not happening, but it is good that it is.”

Meanwhile, the National School Boards Association (NSBA) lobbied federal authorities to brand parents protesting at school board meetings as “domestic terrorists.”²⁴ Parents were outraged, and it ended poorly for the NSBA after many states withdrew their state chapters from the organization.

Some families have decided to fight back to contest union influence over school districts. The best solution remains what John Stuart Mill advocated long ago: pluralism. America is a diverse country with divergent views on what constitutes an appropriate and a high-quality education.

Lawmakers in 10 states (Alabama, Arizona, Arkansas, Florida, Iowa, North Carolina, Ohio, Oklahoma, Utah, and West Virginia) have created or expanded choice programs to allow all parents to choose the type of education that best suits their child. Parents in these states can choose between schools and other learning environments that align with their values and meet their child's educational needs, with the public K–12 funding following the child. Parents in these states are using their choice programs to enroll their children in private schools, hire tutors, attend college courses, cover homeschooling expenses and to pay for special education therapies. Most students continue to attend government schools, but all students in these states will be able to opt out if their parents believe it necessary.

Choice programs create an elegant opt-out that can reduce social conflict. The greater challenges ahead, however, require even more robust policies.

A Universal Refundable Tax Credit for Cementing Universal Education Choice

Defining terms will provide clarity for the current proposal. Personal-use tax credits allow parents to receive state tax relief for educational expenses, including private school tuition, books, supplies, computers, tutors, and transportation.²⁵ With a refundable tax credit, education expenses may exceed the tax imposed by the government, with the excess amount refunded to the taxpayer. Under a refundable personal-use tax credit a family can receive the full benefit of a credit even in cases in which it exceeds its personal tax liability.²⁶ For example, a taxpayer with \$5,000 dollars of eligible expenses and \$4,000 in state tax liability can receive a \$1,000 refund from the state—which can still save the state a great deal of money when it is used in lieu of a \$18,000-per-child spot in a district school.

A scholarship tax-credit policy allows taxpayers to receive full or partial tax credits when they donate to nonprofits that provide private school scholarships.²⁷ Finally, a universal tax credit would give both a personal-use credit to families and a scholarship credit to donors. No state has yet implemented a universal tax-credit policy.

This *Special Report* proposes that state lawmakers add a robust refundable personal-use tax credit (described below under “Improving on the Oklahoma Baseline”) to the existing mix of choice programs. Such a credit should reduce the expense of satisfying the mandatory K–12 attendance requirement outside of enrolling in a public school. Lawmakers should design this credit to be large enough to attract participation and small enough to reduce the K–12 fiscal burden on taxpayers. The credit should

operate as a K–12 choice option available to parents along with others, such as charter schools, school vouchers, or ESAs. Some state lawmakers may prefer to create a universal tax credit depending on the circumstances of their state and their preferences, as explained below.

The strongest possible combination of choice programs will generate the greatest benefit for students and taxpayers. It is also the system most likely to best serve the interests of disadvantaged students.

How Education Choice Helps Disadvantaged Students

Many states have made progress on education choice, but few have created robust systems that expand with demand. This *Special Report* proposes therefore to add a new arrow to the quiver of choice supporting state lawmakers: a refundable personal-use tax credit. This policy should offer a tax credit to the parents of any student eligible to attend a district school in lieu of such attendance for certain educational expenses. The state should offer this credit to families on an annual basis so long as their eligible student does not attend a school district or a charter school or participate in another private choice program (voucher, tax-credit, or ESA).

Every participating family will remain obligated to satisfy the mandatory K–12 attendance law of its state. State policy, however, should remain neutral about how families satisfy this requirement. Recently, a number of states have passed choice laws that have offered those attending private schools much higher levels of assistance than those who are homeschooled. For example, a recent Oklahoma credit program, discussed below under “The Oklahoma Parental Choice Tax Credit Act,” offers up to \$7,500 for students attending private schools, but discriminates by only providing \$1,000 for homeschooled students.

Policymakers will need to judge the value of the credit depending on the circumstances of their state. If the credit amount is set either too low or too high, it will fail to free up resources for other priorities in the state budget. A meager credit may attract few takers and save the state little. A credit as large as the average for public school spending in the state would generate far more applicants but would fail to free resources for competing state priorities.

States also vary widely on the mix of local and state taxes used to finance K–12 education. Many of these state systems are complex and will require local expertise to design a credit. In any case lawmakers should balance participation, savings to the state’s general fund, and overall savings to taxpayers.

Addressing Equity Concerns Through a Combined-Arms Operation

Opponents may claim that the tax-credit proposed here will be insufficient for lower-income families because it will require families to incur K–12 expenses before receiving the credit. Taken in isolation, this might seem like a valid concern. Choice programs do not, however, operate in isolation from each other and most states now have private or public choice programs, and most have both. Among the aims of the proposal made here is to free up taxpayer funds for other purposes, and such a program can operate within a total system of choice to work to advantage of all.

If, for example, an upper-income family is willing to accept a tax credit well below the average taxpayer investment in the public school system, they will create multiple benefits to the state and to lower-income families. The taxes paid by this family support both the district and, if applicable, the state charter school system.

Second, participation in the credit will free up resources for the state to spend on other priorities. Third, families living in high-demand districts but not availing themselves of district seats create open-enrollment transfer possibilities for students living outside the high-demand district. Refundability will make it easier for families of all income levels to participate in the credit program. Finally, in the unlikely and worst-case scenario that only affluent families participate in the credit program, they would be getting the lowest level of subsidy while paying the most in taxes.

Through a “combined-arms operation” approach with multiple forms of choice operating simultaneously, a virtuous cycle can develop whereby high-demand school models flourish and low-demand schools close. In such a system the students who traditionally have the fewest options can be the biggest winners.

Australian General John Monash created the modern concept of a “combined-arms operation” in World War I while serving on the Western front. Monash synchronized artillery, infantry, cavalry, and the newly developed tanks and aviation to great effect, hastening a German surrender.²⁸ Some of the elements of the combined-arms operation, such as infantry and cavalry, had been used for thousands of years, while others, such as airplanes and tanks, were relatively novel in 1918. Monash brilliantly coordinated all elements simultaneously to full effect.

The choice movement aspires to give educators the opportunity to run their own schools and parents the chance to choose among them to find the school best fitting the aspirations and needs of their child. Like General

Monash in 1918, some of the methods for achieving the aims of choice advocates are old (such as charter schools), while others have been developed relatively recently (such as ESAs). The current toolbox for expanding education freedom includes district magnet schools, homeschooling, district open enrollment, charter schools, school vouchers, scholarship tax credits, online education, and ESAs. State lawmakers should not only seek to institute a new form of choice in the form of the tax credit called for here but should also fix other elements of their combined-arms operation.

A large majority of choice programs have severe constraints, which limit their ability to serve families and to spur the creation of new schools. Districts have created magnet schools that are open to all within the district and typically have a curricular focus. The would-be magnet school founder, however, must secure the blessing of the school board, and recognize that the interests of other schools in the district weigh against creating competitors in sufficient number to increase competition for district students. Magnet schools have been quicker to generate waitlists than to replicate. Absent some policy innovation—say, a statute allowing a district school to convert into a magnet with a vote of parents of enrolled students—magnet schools will remain an unlikely source of dynamism.

Many state charter school laws have statewide caps on the number of schools or otherwise restrict them to particular school districts (typically large urban districts in states with geographic restrictions). More disturbingly, recent charter laws have simultaneously received praise from national charter school groups but have produced vanishingly few actual charter schools.²⁹ The apparent confusion over what constitutes a robust charter school law appears to bear the hallmark of a “Baptists and bootleggers” coalition problem whereby elements of the charter coalition have teamed with charter opponents in order to limit competition for both the districts and for themselves.³⁰

Scholarship tax-credit laws—distinct here from the tax-credit reform described earlier—typically have statewide caps on the total amount of funding. Many voucher programs likewise have geographic restrictions (such as the first two modern programs for students in Milwaukee and Cleveland).³¹ Other voucher programs limit eligibility based on income or geography or serve only students with disabilities.

Universal ESA programs are the most robust form of choice available, but the current versions of these policies do not represent an end state for choice policies. All ESA programs passed to date have structured programs as opt-outs of the public school system. However, the ultimate form of an ESA program would direct all K-12 funding into parent-managed

accounts that they could use to access K–12 services broadly—including those offered by district schools. Under such a law, the default position then is choice, rather than the default being assignment to a traditional public school.

The technologies and practices necessary to carry out such truly paradigm-shifting policy, however, remain under development. Several firms are working on the administrative technologies for ESA programs. Currently administrators are working to resolve challenges in administering opt-out programs.

The clearest example of a combined-arms operation for school choice comes from Arizona. Arizona lawmakers passed the nation’s most robust charter school law and a statewide district open-enrollment statute in 1994. They followed in 1997 by creating the nation’s first scholarship tax-credit statute, giving taxpayers a dollar-for-dollar credit for donations to non-profits granting K–12 scholarships to students that allow them to attend private schools. Arizona lawmakers expanded the tax-credit program many times after 1997.

In 2011, Arizona lawmakers created the Empowerment Scholarship Account—the nation’s first ESA program.³² Originally only students with disabilities could participate, but lawmakers expanded eligibility to a number of student subgroups (such as students zoned for failing district schools, students living on tribal lands, and siblings of eligible students). In 2022, Arizona lawmakers expanded ESA eligibility to all Arizona students.

Arizona lawmakers thus created two choice programs with universal eligibility in 1994 (charter schools and open enrollment), another in 1997 (the original scholarship tax-credit program), and a third in 2022 (universal ESA). During this period Arizona lawmakers also created targeted choice programs, such as two programs for students with disabilities and two means-tested corporate scholarship tax-credit programs. Twenty-two percent of Arizona students attend a charter school, which makes it the largest statewide charter sector in the country.

Arizona ranked first overall in education freedom in 2000.³³ Arizona achieved the same standing again in the 2021 ranking using a similar methodology. In order to keep the top overall ranking, Arizona lawmakers presided over the growth in the largest charter school program, expanded tax credits, multiple times, followed by creating and expanding the nation’s first ESA program. In the process, district open enrollment became very actively utilized by Arizona families. This is as close to a combined-arms operation for education options as it gets, at least so far.

Opponents allege that choice programs harm district students. A large majority of empirical studies find the opposite of this assertion to be the case, and so, too, does academic achievement data from Arizona. Scholars widely agree that growth represents the best available measure of school academic quality as it measures learning over time rather than simply the level of test scores. Test score levels correlate strongly with student demographics, whereas academic growth does not.

Choice programs interact and reinforce each other in practice if designed correctly and have been key to Arizona's success. The national housing bust that unfolded after 2008, known as the Great Recession, hit Arizona's economy especially hard. Unexpectedly, this created an opportunity for high-demand charter school operators, as potential school facilities became unusually inexpensive. During the lead up to, and during, the Great Recession, Arizona lawmakers both expanded the scholarship tax-credit program multiple times and created the Empowerment Scholarship Account program in 2011, during the period when the state's economy still reeled from the impact of the Great Recession.

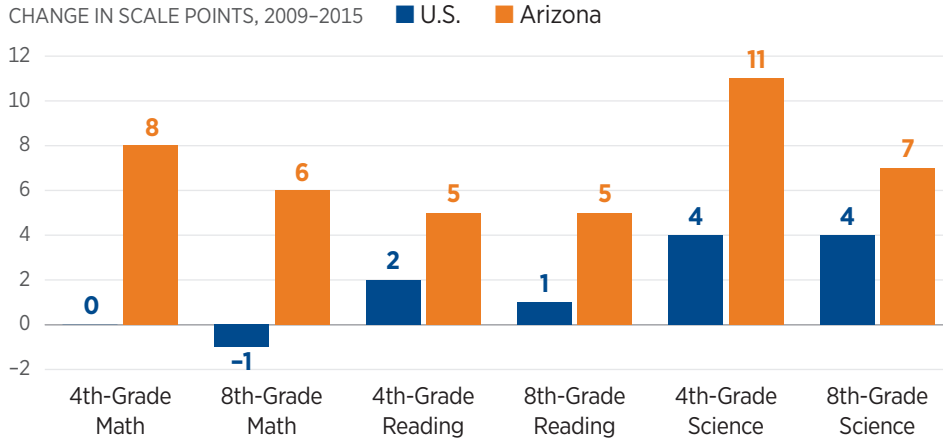
The unusual geographic inclusiveness and size of the Arizona charter school sector, coupled with the expansion of private choice options, created pressure from Arizona school districts to participate in open enrollment. The state's open-enrollment statute that passed in 1994 simply forbade the charging of tuition to open-enrollment students and required districts to pass an open-enrollment policy.

Arizona districts can set their policy as not accepting any open-enrollment students at all, but that choice became increasingly impractical as the universe of options increased. An increasing number of Maricopa County (and districts in other counties) however chose to participate, which in turn created an increasingly powerful incentive for all districts to participate in open enrollment. If districts were going to lose enrollment through open enrollment as more districts chose to participate, it was therefore in their best interest to gain students through open enrollment as well.

Scottsdale Unified School District, an affluent suburban district in Maricopa County, has 21,437 students, more than 4,644 of whom are open-enrollment students.³⁴ A demographic study of Scottsdale Unified found that 9,000 students live within the boundaries of the district but do not attend Scottsdale Unified district schools. Scottsdale Unified, however, takes in approximately half of that number of students from open enrollment. The Arizona Auditor General estimated the physical plant capacity of the Scottsdale Unified School District at 38,000 students.³⁵ In the absence of open-enrollment students, Scottsdale Unified might be as low as at 41 percent of capacity.

CHART 4

NAEP Trends for Arizona and U.S.



SOURCE: National Assessment of Educational Progress, “Explore Assessment Data,” <https://nces.ed.gov/nationsreportcard/data/> (accessed July 26, 2024).

SR289 heritage.org

The widespread availability of open-enrollment seats in higher-demand district schools also creates a positive feedback loop into other forms of choice. Arizona’s charter law, for instance, grants 15-year charters, but the average closure of an Arizona charter school is after four years.³⁶ Many Arizona charter schools close, but Arizona parents, rather than charter authorities, have taken the lead in deciding which charters close.

The Great Recession hit Arizona’s economy especially hard, but Arizona students alone demonstrated statistically significant gains on all six National Assessment of Educational Progress (NAEP) exams and exceeded the national improvement trend on all six exams given during this period.³⁷

A school choice combined-arms operation allows families to decide which schooling options they value, and which they do not. By contrast, constrained-choice programs—for example, charter school or private choice programs aimed either exclusively or almost exclusively at inner cities—cannot unlock high-demand district schools through open enrollment.

Even more important than academic-achievement improvement, Arizona’s choice system created meaningfully diverse school options for families to choose from. Arizona families have the opportunity to select schools that align with their values and which they believe will help their children to achieve their aspirations.

In practice, such districts will always have the option of denying open enrollment to non-resident students, regardless of what the law says. The crucial success of Arizona's combined-arms choice operation was *not passing* a statewide open-enrollment statute. The primary success came in creating enough non-district options for families to *heavily incentivize districts to participate*. Districts do not necessarily like open enrollment, but they hate closing schools.

Arizona's combined-arms operation included a very strong and inclusive charter school program, four different scholarship tax-credit programs, and the nation's first ESA program. Collectively, these programs unlocked the participation of high-demand school districts in open enrollment. Open-enrollment growth set off a virtuous cycle that resulted in Arizona leading the nation in academic growth.

Stanford University's Educational Opportunity Project linked state achievement data from across the country. The project allows comparisons of academic proficiency and growth for schools, districts (and the charters operating within them), counties, and states. The project recently released new data, including for the 2018–2019 school year, and Arizona's low-income students led the nation in academic growth compared to their peers around the nation.

Not coincidentally, Arizona's low-income students also have more access to a full gambit of choice options—including not just charter and private choice options but also the ability to attend high-demand district schools.

Limited, exclusionary programs of the sort that make up most of the state charter and private choice laws have little to no prospect for setting off a virtuous cycle like that seen in Arizona's combined-arms operation. Multiple powerful choice programs can achieve these results.

If lawmakers combine a weak charter school law with geographic restrictions and with few schools permitted to open with a small or restricted private choice program, as lawmakers in many states have done, only limited systemic improvement should be expected—at best. On the other hand, if lawmakers pass multiple strong and universal choice programs, charter and private, and give them time to operate, districts in the leafy suburbs will find it in their best interest to make seats available. Ironically, multiple universal choice programs unlock the full menu of choice for low-income children whereas programs which allegedly exclusively cater to them fail to do so in a substantial and timely fashion.

A personal-use tax credit operating among multiple other options with the credit designed to save taxpayer money will create educational and financial benefits.

Improving on Previous Attempts at Refundable Tax Credits

State lawmakers passed 10 K–12 individual tax-credit/tax-deduction programs before 2023, most of which were very modest in scope. These programs tend to provide examples of pitfalls for policymakers to avoid rather than examples on what to emulate. By contrast, Oklahoma lawmakers passed the Oklahoma Parental Choice Tax Credit Act in 2023, which is by far the most robust policy of the sort passed to date.

Minnesota lawmakers created a K–12 tax credit in 1997, worth up to 75 percent of the amount spent on non-tuition education expenses, up to \$1,000 per child. Unfortunately, the law begins to phase out the credit after a family makes \$33,500 in income. Between the highly restricted income eligibility, which inflation makes increasingly more restrictive over time, use of the Minnesota credit has steadily declined for the past 20 years. By 2022 the number of participants stood at less than a third of the number of participants in 2004 in 2022.³⁸ In addition, inflation has reduced the real value of \$1,000 since 1997.³⁹ Policymakers should avoid making the same mistakes in the future by indexing for inflation.

In 1999, Illinois passed the Education Expense Credit, which provides up to a \$500 credit for expenses incurred at private schools. The modest funding amount serves to slightly reduce the double payment penalty of families paying both school taxes and private school tuition. Illinois averaged \$20,843 in expenditure per pupil in 2021 and has home-grown fiscal imbalances to couple with those coming from the federal government.⁴⁰ A small credit of this nature has a limited ability to move the needle in terms of providing choice options to parents or freeing up resources for lawmakers. Illinois lawmakers could expand this by a factor of twenty and still be less than half of the average per pupil spending in public schools—another example not to emulate.

Alabama created a refundable tax credit for students in 2013 but restricted the terms to such an extreme degree that only 44 students utilized the credit in 2022.⁴¹ The credit is based upon attending a “priority” district school that receives a D or F rating from the state—only 5 percent of Alabama students attend priority schools. Worse still, public awareness of school rankings or grades remains low, and those rankings change from year to year. Many of the 5 percent eligible for the credit remain unaware of their eligibility. As discussed above, many limited and targeted choice programs end up doing the least amount of good for disadvantaged students. The Alabama Accountability Act personal-use credit stands as an example not to follow.

In 2015, South Carolina lawmakers created a personal use tax-credit for students with disabilities with a maximum amount of \$11,000, but that program has a \$2,000,000 statewide cap and thus can only aid a limited number of students. As of 2022, only 625 students participated.

The Oklahoma Parental Choice Tax Credit Act

In 2023, Oklahoma lawmakers passed the most robust personal-use education tax credit to date. The Oklahoma Parental Choice Tax Credit provides families sending their children to accredited private schools credits worth between \$5,000 and \$7,500 (varying by family income with lower-income families receiving larger credits). The law also provides for \$1,000 for homeschooling students. Lawmakers designed the credit to be refundable. For example, a family with \$5,000 of eligible expenses at an accredited private school but \$4,000 in Oklahoma tax liability will still receive a \$5,000 credit, with the difference reimbursed to the taxpayer.

Qualifying expenses for the private school credit include tuition and fees, whereas the law covers a broader array of educational expenses under the smaller homeschooling credit. For 2024, the Oklahoma lawmakers capped the private school tax credit program at \$150 million, increasing to \$200 million in 2025 and then to \$250 million in 2026 and beyond.

Choice supporters and opponents will be examining the Oklahoma policy closely as it progresses. Assuming an average private school tax credit at the mid-point between \$5,000 and \$7,500 (\$6,250) the private school credit will serve approximately 40,000 students and the homeschool credit as many as another 5,000 students when it reaches the \$250 million cap. This represents approximately 6 percent of the public school enrollment of the state of Oklahoma in 2022.

Oklahomans may not meet these caps in the long run, however, if the supply of private school seats fails to match the demand. At the time of this writing more than 160 Oklahoma private schools have registered with the state to participate in the private school credit. The ability of parents to send their children to a private school will vary according to the number of participating schools, their proximity to the family, and the number of available seats and the grade levels appropriate for the children.

Oklahoma covers 68,577 square miles in land area, so 160 participating private schools is only one for every 480 square miles in the state. The state's population of course is not distributed evenly throughout the state, but for context: Oklahoma has more than 1,700 public schools. The relative scarcity of private schools in the state makes the onboarding of new private schools

crucial to the success of the program. Educators could create new private schools, especially in areas in which demand exceeds supply. Unfortunately, lawmakers did not design the Oklahoma Parental Choice Tax Credit Act in a fashion that recognizes the need for additional private schools.

The law's requirement that a private school be accredited could prove a significant barrier to the supply of new seats. Accreditation can be a multi-year process.⁴² While an accreditation process is underway, students attending a new private school would be ineligible for tax credits. This may prove to be a crippling feature in favor of incumbent and already accredited schools and against the creation of new private schools.

Although \$250 million represents a large amount of money, put into context, it is not sufficient to drive dynamic K–12 change. If Oklahoma parents hit the tax-credit cap in the third year of the program, the credit would educate more students than Oklahoma's highest-funded school district (Oklahoma City) but would only provide a funding amount equal to approximately 56 percent of the Oklahoma City district's budget.

Improving on the Oklahoma Baseline

Oklahoma's statute stands as the closest existing program to that proposed here and could easily approximate it with a few statutory tweaks.

No Cap or High Cap with a Demand-Driven Escalator. If the Oklahoma statute allowed private school tuition from either accredited private schools, private schools in the process of seeking accreditation, or private schools simply recognized to operate by the state, it would give new private schools an opportunity to get off the ground and compete with existing private schools, district schools, and charter schools.

Lawmakers in other states have addressed similar problems in the past. Florida lawmakers created an automatic process for lifting a capped corporate scholarship tax credit, applicable to a capped version of the individual credit like that proposed here. The Florida statute language reads:

In the 2013–2014 state fiscal year and each state fiscal year thereafter, the tax credit cap amount is the tax credit cap amount in the prior state fiscal year. However, in any state fiscal year when the annual tax credit amount for the prior state fiscal year is equal to or greater than 90 percent of the tax credit cap amount applicable to that state fiscal year, the tax credit cap amount shall increase by 25 percent. The Department of Education and Department of Revenue shall publish on their websites information identifying the tax credit cap amount when it is increased pursuant to this subparagraph.⁴³

A provision like the Florida cap escalator would allow parental demand to expand the cap on the program over time. Arizona's original tax credit passed with no cap in 1997 without any problem materializing over time, but lawmakers may prefer an initial cap with an escalator for purposes of budgeting certainty. If choosing a cap with escalator design, the higher the cap and escalator, the less likely families will be to find themselves excluded from participation.

An uncapped credit or a credit with a larger cap with a robust, demand-driven escalator would also provide greater certainty to those wishing to either create new private schools or to expand existing facilities. Well-designed charter school laws allow educators the certainty of knowing that if they attract applicants, those applicants will have operational funding from the state. This is the standard to which all private school advocates should aspire—to do otherwise will place the thumb of the state on the scale of starting new charter schools rather than private schools. Government policy should encourage the creation of both charter and private schools to the extent demanded by parents.

A robust and formula-funded ESA program in Arizona, for example, provided a certain-enough policy environment for the nonprofit Great Hearts Academies charter management organization (CMO) to experiment with creating new private schools. CMOs bring a great deal of expertise to the task of creating and managing new schools, making this a highly welcome development. Arizona's earlier, more modest scholarship tax-credit programs, with a mixture of caps and donation limits, were insufficient to encourage CMOs from engaging in the creation of new private school space.

Equal Treatment for Private Schools and Homeschooling. State mandatory K–12 attendance requirements can be satisfied with either public school, private school, or homeschooling. An ideal credit would therefore provide an equal amount of funding to either option and would operate under a single cap (if any). Additionally, the broader universe of expenses permitted under the Oklahoma tax credit for homeschooled students should be open to all participating students, up to the per-child limit of the credit.

New School Entry. The Oklahoma credit's requirement for schools to be accredited has the potential to suppress new school supply, as discussed. An ideal statute would either not require accreditation at all or would create a mechanism for a school being able to participate in the program while seeking accreditation.

Still, some lawmakers may prefer to create a universal tax credit rather than a robust personal-use tax credit. A universal tax credit would create

both the personal-use tax credit described here and a scholarship credit for donations to nonprofit organizations that provide K–12 scholarship aid to students. Detailed universal credits have been proposed but never passed.⁴⁴ Under a universal tax credit taxpayers can either take a credit against state tax liability for expenses incurred by their eligible students *or* they can donate a like amount to a nonprofit and receive a dollar-for-dollar credit against state tax liability.

Lawmakers could prioritize the scholarship portion funds raised by nonprofits for low-income families and families with multiple children. Such prioritization could be made to provide “upfront” funding for families who might struggle to finance a non-public education. A scholarship credit could ease participation costs for many families but would increase program complexity. The total amount of aid from both scholarship and personal credits must fall below the public spending per-pupil threshold to realize taxpayer savings. Nonprofits that administer scholarship tax credits would need to share basic data on recipients to ensure per-student limits. Many states have existing scholarship tax-credit programs that could be tweaked to carry out a complementary mission to a robust personal-use credit.

The design of such a program again would be very specific to the tax structure of individual states and could take a number of forms. State-based choice coalitions should examine the possibilities and weigh the varying trade-offs in terms of complexity and equity, which will vary by state and program design. The default recommendation here, however, to the extent that one is possible, would be to move forward with a robust personal-use credit regardless of the existing choice programs in the state—and to consider a corresponding scholarship tax credit if lawmakers deem it useful and productive.

In the spirit of the combined-arms approach, no one should view a program such as that proposed here as the end-all-be-all, but rather the program should be designed for two broad purposes: (1) to enhance the vibrancy of choice in the state and (2) to save taxpayers money in the process. The state tax against which to credit may vary according to the tax structure of each state, as states vary in their mixtures of taxes, although income-tax credits are the most common.

Lawmakers should design such a credit with the goals of both expanding educational freedom and freeing taxpayer resources for addressing challenges outside K–12 education. The program should have no strings attached, such as offering families willing to relieve taxpayers of the fiscal burden of educating their child a partial refund. This credit should operate alongside other types of choice and families should have it as an option.

Risk-Based Auditing. One of the challenges in ESA implementation has been the desire by implementing agencies to approve purchases before they occur. This approach has had the severe downside of delaying the ability of families to use their accounts. Delayed payments can discourage service providers from participating in the program—which can lead to more families using reimbursements from ESAs. Reimbursements are vital to include in ESA programs but tend to be the most labor-intensive payment method for administrators.

Innovators are developing technological solutions to this challenge for ESAs (batch approvals for routine purchases and rapid reimbursement technologies using artificial intelligence), but a tried-and-true practical solution lends itself elegantly to a personal-use tax credit: risk-based auditing.⁴⁵

The United States has one of the highest tax-compliance rates in the world, despite the Internal Revenue Service auditing far fewer than 1 percent of personal income-tax returns.⁴⁶ Despite the fact that the United States has a mind-numbingly complex tax code, the threat of an audit, financial penalties, and the threat of jail time means that a huge majority of Americans give their best effort on their taxes.

A personal-use tax credit can be a great deal simpler than the American tax code. Keeping a basic set of uses—such as tuition, educational therapies, tutoring, books, and standardized testing—will keep the program relatively easy to administer. A system of risk-based audits can be put in place to detect and deter misuse of funds, and a schedule of penalties created in rule or statute.

The Arizona Auditor General reviewed the Empowerment Scholarship Account program and found a very modest amount of misspent funds, especially in comparison to other publicly funded programs.⁴⁷ The Arizona Auditor General made a series of recommendations to improve the administration of the Empowerment Scholarship Account program—including risk-based auditing.

Winston Churchill is said to have noted that Americans can always be relied upon to do the right thing, once they have exhausted all the other alternatives. Americans are in the process of exhausting all the alternatives on ESA administration. In the meantime, a strong personal-use tax credit policy can enhance any state's K-12 system, whether it has previously implemented an ESA or not. The credit lends itself easily to a set of practices which can detect and deter misuse of funds.

Conclusion: The Secret to Happiness Is Freedom

Neither the nation's fiscal mess nor demographic problems is the *fault* of state lawmakers, but it is becoming their *problem*. Americans need much more from their costly but underperforming K-12 system. Time has run out:

Americans need policies that will produce better educational outcomes at a lower cost to taxpayers *now*. Moreover, parents deserve the opportunity to provide their children with an education which matches their educational values and needs. A robust refundable K–12 personal-use tax credit can help policymakers to achieve these goals.

The country’s challenges are great, but one would be wise not to bet against the inventiveness and can-do spirit of American educators and families. After decades of getting less bang for each invested buck in the captured and broken district system, the time has come for novel approaches. A demand-driven system of K–12 education will allow teachers to create new schools and parents to select the schools they desire for their children.

Robust education choice programs have begun to turn once-frustrated public school teachers into their own bosses, free from the dead hand of district bureaucracy. From the perspective of parents and students, the greater the menu of options, the better the chance of finding the right fit.

Thucydides taught that the secret to happiness is freedom, and that the secret to freedom is courage. Courage is required to create new schools, to break free from stultifying entrenched systems, and to rely on one’s own abilities and commitment. Thousands of teachers have had the courage to do just this, and more will follow their lead. They deserve policies that will allow education to flourish.

Endnotes

1. David Benjamin and David Komlos, "The Purpose of a System Is What It Does, Not What It Claims to Do," *Forbes*, September 9, 2021, <https://www.forbes.com/sites/benjaminikomlos/2021/09/13/the-purpose-of-a-system-is-what-it-does-not-what-it-claims-to-do/?sh=3ae87f193887> (accessed July 9, 2024).
2. "The 123s of School Choice: What the Research Says About Private School Choice Programs in America," EdChoice, October 5, 2023, <https://www.edchoice.org/research-library/?report=the-123s-of-school-choice-3#report> (accessed July 9, 2024).
3. Brian D. Ray, "A Systematic Review of the Empirical Research on Selected Aspects of Homeschooling as a School Choice," National Home Education Research Institute, August 12, 2019, <https://www.nheri.org/a-systematic-review-of-the-empirical-research-on-selected-aspects-of-homeschooling-as-a-school-choice/> (accessed July 9, 2024).
4. Chris Cargill, "There Are 187 Studies on Impact of Education Choice—and the Results Are Overwhelming," Mountain States Policy Center, updated January 24, 2024, <https://www.mountainstatespolicy.org/there-are-187-studies-on-impact-of-education-choice-and-the-results-are-overwhelming> (accessed July 9, 2024).
5. National Association of State Budget Officers, "State Expenditure Report: Fiscal Years 2021–2023," 2023, p. 7, https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/SER%20Archive/2023_State_Expenditure_Report-S.pdf (accessed July 9, 2024).
6. Mariacristina De Nardi et al., "Medical Spending of the US Elderly," *Fiscal Studies: The Journal of Applied Public Economics*, Vol. 37, Nos. 3–4 (September–December 2016), pp. 717–747, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6680320/> (accessed July 9, 2024).
7. David E. Bloom, David Canning, and Günther Fink, "Implications of Population Aging for Economic Growth," World Demographic & Ageing Forum and University of St. Gallen, January 2011, <http://www.wdaforum.org/fileadmin/ablage/wdaforum/publications/dp2011-02.pdf> (accessed July 9, 2024).
8. National Association of State Budget Officers, "State Expenditure Report: Fiscal Years 2021–2023," p. 7.
9. Robert J. Gordon, "The Demise of U.S. Economic Growth: Restatement, Rebuttal, and Reflections," National Bureau of Economic Research *Working Paper* No. 19895, February 2014, <http://www.nber.org/papers/w19895.pdf> (accessed July 9, 2024).
10. Peter G. Peterson Foundation, "Why the American Healthcare System Underperforms," July 31, 2023, <https://www.pgpf.org/blog/2023/07/why-the-american-healthcare-system-underperforms#:~:text=Healthcare%20spending%20is%20projected%20to,percent%20of%20GDP%20in%202031> (accessed July 9, 2024).
11. Alec MacGillis, "Skipping School: America's Hidden Education Crisis," ProPublica, January 8, 2024, <https://www.propublica.org/article/school-absenteeism-truancy-education-students> (accessed July 10, 2024).
12. U.S. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey: Concepts and Definitions (CPS)," 2020, <https://www.bls.gov/cps/definitions.htm> (accessed July 10, 2024).
13. Jonathan Vespa, Lauren Medina, and David M. Armstrong, "Demographic Turning Points for the United States: Population Projections for 2020 to 2060," U.S. Census Bureau *Current Population Reports*, March 2018 (revised February 2020), <https://www.census.gov/content/dam/Census/library/publications/2020/demo/p25-1144.pdf> (accessed July 10, 2024).
14. Matthew Ladner, "Paging Special Agent Johnny Utah to Investigate Utah Mystery," Next Steps, December 5, 2023, <https://nextstepsblog.org/2023/12/paging-special-agent-johnny-utah-to-investigate-utah-mystery/> (accessed July 15, 2024).
15. Michael J. Petrilli, "The Baby Bust Goes to School: Are Falling Birthrates a Crisis or an Opportunity?" *Education Next*, Vol. 19, No. 3 (Summer 2019), pp. 82 and 83, <https://www.educationnext.org/baby-bust-goes-to-school-falling-birthrates-crisis-opportunity/> (accessed July 10, 2024).
16. Citibank, "Is There a US Manufacturing Renaissance?" January 18, 2023, <https://www.citigroup.com/global/insights/citigps/us-manufacturing-renaissance> (accessed July 10, 2024).
17. Ibid.
18. Larry Hitchcock et al., "The Future of Freight: Transforming the Movement of Goods," Deloitte Insights, November 1, 2022, <https://www2.deloitte.com/us/en/insights/focus/transportation/future-of-transport-industry.html> (accessed July 10, 2024).
19. John Stuart Mill, *On Liberty* (Mineola, NY: Dover Publications, 2022).
20. Terry M. Moe, *Special Interest: Teachers Unions and America's Public Schools* (Washington, DC: Brookings Institution Press, 2011), p. 7.
21. David P. Gardner et al., "A Nation at Risk: The Imperative for Educational Reform. An Open Letter to the American People. A Report to the Nation and the Secretary of Education," National Commission on Excellence in Education, April 26, 1983, <https://files.eric.ed.gov/fulltext/ED226006.pdf> (accessed July 10, 2024).
22. John E. Chubb and Terry M. Moe, "Review Symposium: Politics, Markets, and America's Schools," *British Journal of Sociology of Education*, Vol. 12, No. 3 (1991), <https://www.jstor.org/stable/1393043> (accessed July 10, 2024).
23. Patrick J. Wolf, Jay P. Greene, James D. Paul, and Matthew Ladner, "Education Freedom and Student Achievement: Is More School Choice Associated

- with Higher State-Level Performance on the NAEP?" *Journal of School Choice*, Vol. 18, No. 1 (2023), pp. 9–29, <https://www.tandfonline.com/doi/full/10.1080/15582159.2023.2183450> (accessed July 10, 2024).
24. Indiana Office of the Attorney General, "NSBA's Fraud on the American People," letter from Todd Rokita et al., October 26, 2021, <https://www.texasattorneygeneral.gov/sites/default/files/global/images/NSBA%20Apology%20Letter%20Response%2010.26.21%20%20final.pdf> (accessed July 10, 2024).
 25. "The ABCs of School Choice: The Comprehensive Guide to Every Private School Choice Program in America, 2024 Edition," EdChoice, November 2023, p. 165, <https://www.edchoice.org/wp-content/uploads/2023/11/2024-ABCs-of-School-Choice.pdf> (accessed July 10, 2024).
 26. *Ibid.*, p. 5.
 27. *Ibid.*, p. 4.
 28. James Heap, "The Abbreviated Evolution of Combined Arms," *The Cove*, May 6, 2019, <https://cove.army.gov.au/article/abbreviated-evolution-combined-arms> (accessed July 10, 2024).
 29. Matthew Ladner, "Uneasy Lies the Head That Wears the Tiara," *Next Steps*, February 22, 2021, <https://nextstepsblog.org/2021/02/uneasy-lies-the-head-that-wears-the-tiara/> (accessed July 10, 2024).
 30. Matthew Ladner, "'The Baptists and the Bootleggers' and Religious Charter Schools," *Next Steps*, December 12, 2022, <https://nextstepsblog.org/2022/12/the-baptists-and-the-bootleggers-and-religious-charter-schools/> (accessed July 10, 2024).
 31. "The ABCs of School Choice: The Comprehensive Guide to Every Private School Choice Program in America, 2024 Edition," EdChoice, November 2023, pp. 76 and 94, <https://www.edchoice.org/wp-content/uploads/2023/11/2024-ABCs-of-School-Choice.pdf> (accessed July 10, 2024).
 32. Arizona Empowerment Scholarship Account, "FAQ: School Choice in Arizona," <https://arizonaempowermentscholarship.org/faq/> (accessed July 10, 2024).
 33. Jay P. Greene, "The Education Freedom Index," Manhattan Institute *Civic Report* No. 14, September 2000, https://media4.manhattan-institute.org/pdf/cr_14.pdf (accessed July 10, 2024).
 34. Scottsdale Unified School District, "Demographic and Enrollment Analysis," <https://resources.finalsite.net/images/v1709636761/susdorg/o5zq1bjmjbepcfqgaqfap/boardpresmar2021v2-updated.pdf> (accessed July 18, 2024).
 35. Arizona Office of the Auditor General, "Scottsdale Unified School District: Report Highlights, Performance Audit," Report No. 15-206, May 2015, https://www.azauditor.gov/sites/default/files/2023-11/Scottsdale_USD_Highlights.pdf (accessed July 10, 2024).
 36. Matthew Ladner, "In Defense of Education's 'Wild West'—Charter Schools Thrive in the Four Corners States," *Education Next*, Vol. 18, No. 2 (Spring 2018), pp. 16–23, <https://www.educationnext.org/in-defense-educations-wild-west-charter-schools-thrive-four-corners-states/> (accessed July 10, 2024).
 37. The NAEP is next scheduled to release state-level science results in 2029.
 38. EdChoice, "The ABCs of School Choice," p. 166.
 39. *Ibid.*
 40. National Center for Education Statistics, Table 236.75, "Total and current expenditures per pupil in fall enrollment in public elementary and secondary schools, by function and state or jurisdiction: School year 2020–21," *Digest of Education Statistics*, 2023, https://nces.ed.gov/programs/digest/d23/tables/dt23_236.75.asp?current=yes (accessed July 10, 2024).
 41. EdChoice, "The ABCs of School Choice," p. 165.
 42. For example, the Southwest Association of Episcopal Schools, one of the private associations recognized by the Oklahoma Private School Accrediting Commission, reports: "While each school's experience varies, the entire process from application to accreditation decision takes approximately three school years." Southwest Association of Episcopal Schools, "Accreditation Process," <https://www.swaes.org/accreditation/accreditation-process.cfm> (accessed July 10, 2024).
 43. Florida Legislature, "The 2023 Florida Statutes," http://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&URL=1000-1099/1002/Sections/1002.395.html (accessed July 10, 2024).
 44. Ben DeGrow and Martin Lueken, "From Universal Tuition Tax Credits to Education Savings Accounts," Mackinac Center for Public Policy, May 11, 2024, <https://www.mackinac.org/29808> (accessed July 10, 2024).
 45. Vice Vincente, "5 Risk-Based Internal Auditing Approaches," Auditboard, April 25, 2023, <https://www.auditboard.com/blog/5-approaches-to-risk-based-auditing/> (accessed July 10, 2024).
 46. J. D. Tuccille, "Globally Speaking, American Taxpayers Are Pushovers," *Reason*, April 17, 2021, <https://reason.com/2012/04/17/globally-speaking-american-taxpayers-are/> (accessed July 10, 2024).
 47. Jason Bedrick, "Education Choice Means Accountability to Families," *Education Next*, last updated March 31, 2023, <https://www.educationnext.org/education-choice-means-accountability-to-families-concerns-about-waste-fraud-esa-misplaced/> (accessed July 10, 2024).



214 Massachusetts Ave., NE | Washington, DC 20002
(202) 546-4400 | heritage.org