Open Enrollment: A Vehicle for Market Competition in Schooling?

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Introduction

Following the repeated failure in the United States of numerous federal tax credit and voucher proposals for education in the recent past, the retiring President Reagan and his successor President Bush announced in January 1989 their enthusiastic support for an alternative reform that seems to them to promise more political success. It is know as "the open enrollment plan."

For many years we have witnessed the monopoly style exclusive territory practice in public education whereby students are geographically assigned to one school exclusively. The open enrollment plan, in contrast, claims to give parents a meaningful choice of schools across districts and sometimes across a whole state. The plan is now being attempted in England and Canada as well as in the United States. In Toronto the authorities have for some time claimed that there is open choice among government high schools. In practice, however, the most popular schools are soon declared "full" on the basis of obscure administrative criteria. But in England, Mrs. Thatcher has now laid down strong safeguards against bureaucratically imposed quotas in schools. British schools enrolling below a certain number must close down.

The U.S. state that has pioneered the open enrollment concept the furthest is Minnesota. And indeed much interest and excitement is being shown there this year because of what is thought to be a crucial new modification. The state has announced that up to $4,000 in state aid will move with each child who transfers from one public school to another. Minnesota authorities explain that the plan will force school districts to improve or to close down for lack of funds. The

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Governor of Minnesota, Rudy Perpich, describes the system as "market forces at work" (Leslie et al. 1988, p. 77). And it seems to be this latest Minnesota version of open enrollment that has caught the attention of Presidents Reagan and Bush.

Open Enrollment and a Market System

The comparison between the newest Minnesota plan and market forces, however, contains six important differences that the presidents' advisors seem to have overlooked. First, real market work with the use of full or near-full pricing. No explicit prices are to be introduced in the Minnesota plan, however, since public schools must remain "free." Second, although it is announced that funds *up to* \$4,000 will move with each child, on average it is likely to be very much less. The public finance of schools is usually based on a foundation plan under which each district must make a minimum tax effort to qualify for state aid. A district that locally raises and spends more than the selected foundation level will receive no subsidy. Several others that spend varying amounts less than the foundation level will be awarded subsidies based on the difference. In practice, therefore, the amount of funds that will move with each student in the Minnesota plan will vary and will be much less than \$4,000. A likely average figure would probably be around \$1,000. Since the average expenditure per student in public schools is around \$3,500, this reveals another contrast with a full market system. In that scenario funds up to nearer the full cost of education would move with each child as he or she is transferred from one school to another.

The third problem relates to the statement that Minnesota school districts that fail under the new system of competition will be forced to close. This proposition invites skepticism because little evidence is available that "bankruptcies" of public shools have been allowed to take place in the recent past. It is true that observers frequently quote the experience of New York's East Harlem where it is claimed three schools have actually been forced to close (Leslie et al. 1988, p. 78). The same observers concede, however, that the failed schools soon reopen after some "reorganization." In a market system, in contrast, since there are no "cushions" to fall back on, closure of the school under its original owners is usually final. New owners may restructure the institution after a takeover, of course, but the change of management is real and obvious. The new "reorganization" of failed public schools, in contrast, is under the auspices of the same owner: the government (although perhaps represented by different personnel).

Whether any closing down of failing schools will occur in Minnesota will, in any case, depend on the outcome of a suit being brought against the state by the Minnesota Federation of Teachers who fear job instability connected with fluctuating school budgets. The Minnesota School Boards' Association is also against the plan for free choice and appears to be influenced by small rural districts that may lose many children to larger districts having more resources.

A fourth problem with the comparison between Minnesota's new plan and a market system is that, although the law envisages free choice of school districts across the state, school boards are nevertheless free to elect not to accept students. It is this kind of discretion that Mrs. Thatcher has forbidden in England. The idea of school choice across the whole state of Minnesota should, in any case, be kept in perspective. It is not likely that families would want to have their children commuting every day over distances of 10 miles or more. The relevant choice for parents usually concerns a sprinkling of schools within reasonably easy geographical reach. Notice too that a free market would respond to locational problems by generating service provision in areas of largest consumer demand, thereby minimizing relocation cost for the consumer.

A fifth problem is that there is no indication about incentives to teachers and administrators of particular schools that the open enrollment plan is supposed to bring. Incentives would be clear and obvious, for instance, if it was openly decreed that salaries of school principals as well as of teachers were to be somehow related by a particular proportion to the enrollment they attract. Nothing, however, is said on this score. But if the sponsors of the plan are really looking for market-like competition within the public school system, some such specification must be made. And such an incentive provision is included in England's Act of 1988.

When asked to take on scores of out-of-district students without the type of incentives just mentioned, several ways are open to a school board in Minnesota to refuse. For instance, according to Subdivision II of Article VII of its Education Bill, a board may simply announce a blanket resolution that nonresident pupils may not attend any of the schools or programs. Alternatively a board may be attracted to the idea of accepting only pupils who bring with them higher than average funds. It can then refuse others by carefully adopting a specific pattern of standards for acceptance and rejection since the legislation obliges the school board to arrive at its own standards. These may include the capacity of the program, class, grade level, or school building. One can anticipate many situations where the school board, having accepted the most lucrative students, will then proceed to refuse additional (less profitable) students on the grounds that its particular programs or schools have "reached their capacity."

A full market scenario, in contrast, will be one in which suppliers use all possible improvisations and expedients to carry any increased load in the short-run and make all possible effort to expand in the long-run. To use an analogy, suppose customers were transferring from a relatively inefficient retail store and were beginning to crowd the premises of a rival store. To argue that the process should stop because it was encouraging "crowding" would be implying an odd notion of efficiency. Any retreat to "catchment areas" to prevent the crowding would remove the very pressure that was working to improve things. Under such pressure the favored store would meet the crowding with temporary measures pending plans for extension, while the unfavorable store would be continuously spurred into trying to copy the superior service of its rival. Staff who were frustrated by their treatment by unimaginative managers in the first store would begin to find tempting vacancies occurring in the more successful, and therefore crowded, second store.

In the case of public schooling many teachers become disenchanted, not just with inefficient managers, but also with inflexible union rules. Consider for example the failure of many U.S. state legislatures to enact performance-based merit pay salary incentive programs due to the political opposition of teachers, unions. Such outcomes bring the most frustration to the best teachers. School privatization, in contrast, would automatically bring more flexibility in salary matters. And indeed, once a full education voucher was established we could expect more teachers to begin managing and even renting or purchasing their own schools if they were still dissatisfied with their salaries and working conditions. But clearly the Minnesota plan cannot be expected to involve anything like this degree of change in the educational scene.

Despite these kinds of observations, Charles L. Glenn, an official of the Massachusetts Department of Education, insists that true competition is one of the powerful things going on at present in Minnesota-like school reform (Patka 1988). Elementary economics, of course, tells us that the most crucial condition for competition is free entry. And this brings us to the sixth, and probably most important, inaccuracy of the comparison between the open enrollment plan and a market system. Since free entry of new private or denominational schools is no part of the Minnesota plan, or any of the public school open enrollment plans, the full conditions of competition are obviously not present. Also the popular description of open enrollment plans as "public schools by choice" is ambiguous. The correct meaning of choice implies choice among *all* the possible alternatives. Choice that is constrained to exclude private schools cannot properly be called free choice.

Free entry is essential if we are to benefit from the kind of competition described by classical economists such as Adam Smith. The type of competition they envisaged was a dynamic process that promptly rewards those who introduce superior methods. Suppose, for instance, that new cost-saving methods become available but have not been widely adopted. In a Smithian-type for-profit, free-market system, entrepreneurs will seize the corresponding opportunities for entry. In contrast, in the nonprofit world of public schools, entrepreneurial incentives are weakened and administrators respond more to political pressures than to market pressures. The highest incentives for prompt adoption of new ideas are therefore absent.

Preserving the Public/State School System

It is possible that the use of the term "competition" by education departments to justify their open enrollment plans will invite others to push the full logic of the case, as we have tried to do here. But such discussion will probably make the average state much more cautious. Education bureaucracies typically do not relish the thought of competition in the proper sense of the term since that would transfer power away from them and toward their customers. Indeed, in many cases competition will make the present occupation of many state bureaucrats superfluous.

In light of this situation, the usual rhetoric of the typical educational establishment always includes the unspoken assumption that the test of any educational reform is that it will not injure the public school system. To take a further analogy, consider another government-provided service: the post office. Suppose there is proof of efficiency in a policy of contracting out to a private business the post office's highest cost services (say the third class mail). The present administrators would undoubtedly reject the proposal (as they have in fact done in the past) on the argument that it would injure "the post office system." But if competition is to mean anything, it must be allowed to drive inefficient uses of resources from the marketplace by allowing more efficient alternatives to enter. To the citizen taxpayer the main end is the provision of the best service for every dollar spent, not the maintenance in perpetuity of one particular means to that end. Similarly, to erect as the main end of education the everlasting preservation of "the public or state school system" is to confuse ends with means.

But there is another reason why the constraint against "injuring the public/state school system" does not hold in the context of Minnesota. Its open enrollment plan includes the interesting option to 11th and 12th graders to transfer, at the state's expense, out of the public school (K–12) system and into post-secondary institutions. Insofar as this takes place (and 4,000 students are taking the option this year), the public school student population is whittled down. This means that the "forbidden" injury to the public school system is already predictable from Minnesota's new plan. Some of the post-secondary institutions being selected by 11th and 12th graders, moreover, are private and denominational establishments (Patka 1988).

A Defense against Vouchers

Advocates of open enrollment have revealed another purpose of the plan in addition to that of creating competition. It is to offer the most effective defense for fending off demands for a full-blown voucher system, "a system that will transfer money into private schools" (Leslie et al. 1988, p. 81). It is such statements especially that suggest the advocates are only half-hearted at most in their desire for competition. A "full-blown voucher system" after all implies "full-blown" competition. Since a voucher system is effectively a payment made by the government to a private or public school chosen by the parent of the child being educated, government schools will be forced thereby to face "full-blown" competition with nongovernment schools. But such invasion of the government administrators' territory would obviously not be welcomed by them. It is no criticism, moreover, that the full voucher system will transfer public money into private schools any more than it would be a criticism against competition with the post office, which would transfer customers' money away from those parts of the post office system that are inefficient and toward private businesses that are efficient.

The public or state school establishment often makes another objection to full vouchers. It is that the consequence would be ethnic and social segregation. But such an objection ignores the fact that typically proposed voucher systems preclude their participating schools (public or private) from practicing racial descrimination. In any case the public school system in the United States probably generates more segregation than do private schools. For, as Thomas Sowell (1984, p. 26) puts it, "In most of the nation's largest urban public school systems, there are not enough whites left to integrate, so any further racial integration in such places may be achievable only by the voluntary movement of black children into private schools."

Evidence from states other than Minnesota demonstrate both the increasing pressure for competition in education and the simultaneous capacity of official education establishments to resist change. Last year the Colorado House rejected a measure that would have allowed parents to send their children to any public school in the state. In Iowa the legislature disapproved a bill that would have allowed public school students to enroll in neighboring districts but only if their home district lacked programs or courses students wanted. Both the sending and receiving districts would have had to approve such transfers. Also in 1988, Mississippi lawmakers defeated a proposal offered as an amendment to another bill that would have given vouchers to parents of kindergarten children and usable at any public or private school with a kindergarten program. In Utah legislative committees also rejected parental-choice bills. One would have provided parents with tax credits for private and public school expenses, and the other would have allowed parents to send their children to public schools in any district. Finally in Wisconsin a 1988 bill was defeated that would have provided disadvantaged families in Milwaukee with vouchers that could be redeemed for education at a public or private school.[1]

The Way Forward in Minnesota

Our review suggests that Minnesota may, after all, be the exception that proves the rule. Advocates of family freedom in education nevertheless will rejoice in this one exception. At least it may be better than nothing. And the exception today may produce unexpected demonstration effects tomorrow since it might generate experience that can be quoted across the land. Despite all the qualifications mentioned above, the increased ability to change schools in Minnesota, at least in some areas, might bring competition to some degree even if it is relatively weaker than full market competition.

A key variable in the possible progress from quasi-competition to market competition meanwhile is the magnitude and handling of Minnesota's state funds that will follow the children from one school district to another. One way in which this can be managed is for the receiving school to anounce a price for out-of-district students, a price that is approximately the same as the expected average transfer funds. It would be useful, moreover, to channel these funds via the parents. In this case the public would see more clearly what is already a fact:

[1]The information in this paragraph on experience across states is taken from *Education Week*, 18 May 1988.

The Minnesota open enrollment plan already amounts to a voucher system, but one that is applied to public schools exclusively.

Fees Plus Subsidies and Loans: The Japanese Success Story

Vouchers and "public funding of private schools" can be designed to have the same economic results. Consider, for instance, an educational voucher worth $2,000. This would allow a family to purchase up to $2,000 worth of education at the (inspected) private school of its choice. The revenue of such a school would therefore be a positive and constant function of enrollment. Compare this with a general system of public funding of private schools. Suppose the funding is on the basis of $2,000 per student. The decision of a family to chose one particular school over another will trigger off a mechanism that will direct $2,000 to the chosen school in the same way as would a voucher of the value. In both cases the school's revenue is a positive and constant function of enrollment.

Similarly a tax credit could be designed to have the same result provided that, in the case of persons who paid no income tax, the tax credit were to be "refundable" as is the case with the 1983 Packwood-Moynihan proposal in the United States. Alternatively the credit could relate to all taxes paid, including indirect taxes.

Since governments in Australia, England, Japan, and Canada provide limited government subsidies to private schools, they already possess the beginnings of a system that could expand into a full market competition model. But if existing government schools are to be included, the subsidies should go directly to each individual school according to enrollment. And those state schools that do not survive financially because they attract too few students should be allowed to go bankrupt and their teachers to begin a new job search.

It is of supreme interest that Japan, having gone furthest in subsidizing private secondary schools, appears to be surpassing all other countries in terms of student achievement. The examination performance lead of Japanese over American students, for instance, grows at an astonishing rate between the ages of 15 and 18. Attendance at Japanese schools for this age group is not compulsory. Yet some 94 percent continue their education voluntarily. The Japanese state high schools are private and charge fees that amount, on average, to about $2,400 or 60 percent of cost, the other 40 percent being covered by central government subsidies paid on a per capita enrollment basis. It has been reported that a subsidy of around 50 percent of private school costs in Japan will persuade about 40 to 50 percent of urban parents to choose private schools. (*The Economist*, 24 December 1988, p. 12). Loans are available from a government-supported scholarship foundation to help families meet the fees at both public and private schools.

It is because these Japanese schools offer education to families at a positive price that large elements of competition have now appeared in the system. The family's degrees of freedom, meanwhile, are substantially increased—not only because it can choose a private school if it does not like the state offering, but also because it can quit formal education altogether if dissatisfied since schooling is not legally compulsory beyond the age of 15 (Lynn 1986, p. 51).

It is no doubt true that several cultural factors are operating to explain Japan's superiority in teenage educational achievement besides the greater competition brought about by its indirect voucher system. One would therefore require systematic multivariate analysis for the fullest and firmest conclusions. But Japan's academic superiority is truly impressive. The average Japanese 18-year-old now does better in math than even a fraction of the top 1 percent of 18-year-old Americans. And 94 percent of Japanese 16-year-olds stay on voluntarily and pay fees for their schooling, while in Liverpool, England, for example, 84 percent of the same age group leave school at the first opportunity (*The Economist*, 24 December 1988, p. 12).

Conclusion

It has been argued that, despite the fact that administered- or pseudo-market schemes such as that of open enrollment is gaining much attention, especially in the United States and Canada, they are ultimately a very incomplete avenue for true competition, choice, and equity in education. In contrast, the voucher and private school subsidy systems are clearly much superior instruments. But so far Japan alone seems to have recognized this fact. Others, meanwhile, seem to continue to be saddled with what they believe to be their "one best system."

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