

**Review of “Spreading Freedom and Saving  
Money: The Fiscal Impact of the D.C. Voucher  
Program”**

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**February 6, 2006**

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Education Policy Research Unit

EPSL-0602-118-EPRU  
<http://edpolicylab.org>

This research was made possible by a grant from the Great Lakes Center for Education Research and Practice.

EDUCATION POLICY STUDIES LABORATORY

ARIZONA STATE UNIVERSITY

TITLE OF DOCUMENT REVIEWED: **“Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program”**

PUBLISHER (THINK TANK): **Cato Institute and Friedman Foundation**

DOCUMENT RELEASE DATE: January 31, 2006

REVIEW DATE: February 6, 2006

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**Summary of Review**

*This is a review of “Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program,” released by the Cato Institute and the Friedman Foundation on January 31, 2006. The review highlights some serious shortcomings in the report’s analysis of the DC voucher program. The review demonstrates that the report’s recommendations to (1) broaden the program beyond disadvantaged students, and (2) fund the program exclusively through local tax revenue, are driven essentially by ideology, and are not supported by evidence. The report ignores the overriding questions of efficiency and effectiveness, fails to account for many of the costs associated with the program, and appears to be unaware of the substantial, and much more complex, research already available on the issue.*

**Review**

**I. INTRODUCTION**

The nation’s capital is a unique laboratory for studying the hotly contested issue of public funding for private schools. Washington, DC has a rich tradition of private and religious schools, most of which have been inaccessible for impoverished families. The District of Columbia Public Schools (DCPS) have gained a reputation as a high-cost, low-quality education system, and residents have accumulated experience with school choice through a substantial charter school sector. The

District is self-contained, with its suburban neighborhoods in separate states, and Congress has the power to exercise its direct authority over the District without the many obstacles presented by state law. In early 2004, an “opportunity scholarship” (voucher) program was launched for residents to attend private schools in the District at public expense — the “District of Columbia School Choice Incentive Act.”

This law represents a major federal intervention into the issue of private school vouchers. Although there were already publicly- and privately-funded voucher programs in a number of cities (including a privately funded program in the District), voucher advocates wanted to increase the federal government’s role in this arena. Congress overcame traditional resistance to the idea of vouchers among local leaders by limiting the number of students who could enroll in the program, and by allocating \$13 million to DCPS and another \$13 million to the local charter schools for physical and programmatic improvements.

“Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program” attempts to evaluate the impact of the voucher program after its first year. Rather than examining the primary claim associated with vouchers — that students learn more in private schools — the authors instead look at the initial impact of the voucher program on educational spending. Specifically, they examine whether the plan has saved DC and its school district any money. The authors also examine some hypothetical scenarios, including the financial impact if program costs were carried locally instead of by the nation’s taxpayers.

## II. FINDINGS AND CONCLUSIONS

The report offers asserts four prominent findings:

- The voucher program successfully responds to substantial demand on the part of parents to choose private schools for their children.
- Principals do, in fact, exercise substantial control over variable costs, so that they may adjust school-level budgets to respond to the gain or loss of students.
- The program currently saves the District money on education, with most of those savings coming from the additional grant from Congress.
- Additional savings would accrue even if the program were fully funded through local sources, due to competitive incentives and efficiencies.

From these findings, the report describes a number of scenarios drawing on possible reconfigurations of the program. Based on various assumptions of eligibility and participation for both students and schools, the report estimates potential savings to the taxpayers of up to \$3 million.

The subsequent sections of this review will show how these findings are partially premised on questionable analyses and largely grounded in ideological assumptions about schooling and markets.

### III. RATIONALE FOR THE REPORT’S FINDINGS AND CONCLUSIONS.

The authors provide little or no empirical evidence to support their findings. Their use of the data tends to be decontextualized and simplistic, giving the appearance that the data support their conclusions.

For example, to support the contention that public schools are failing, the report cites raw achievement scores from standardized tests such as the Stanford 9, and the percentage of District students (presumably those in public schools<sup>1</sup>) reaching “proficiency” levels in math on the National Assessment of Educational Progress, the “nation’s report card.” Yet the data, as presented in their analysis, do not tell us anything about school effectiveness because the report fails to control for student demographics, prior achievement, or other factors known to heavily influence student achievement. In order to suggest the lack of a causal link between inputs and outcomes, the report refers to spending data from the National Center for Education Statistics. According to the authors, these data report that DCPS has “nearly the highest per pupil spending of any district in the nation,” but the analysis fails to consider student characteristics such as the greater need for services due to the high concentrations of students living in poverty, or students with limited English proficiency.<sup>2</sup> Furthermore, the report cites the concurrent decline in enrollment at DCPS and the emergence of charter schools in the District as proof of parents’ preferences for options outside of DCPS. They claim that this has caused the “downward spiral of DCPS.”<sup>3</sup> The authors fail to examine whether the decline of DCPS *causes* families to leave, or if families leaving DCPS causes that purported decline. Each of these points is examined later in this review (sections IV and V).

Most of the report’s fiscal conclusions are based on simple cost estimates, looking at per-pupil funding and at the amount allocated for vouchers. In making predictions about the fiscal impact of the program under different configurations, the authors introduce different assumptions into their calculations, some of which are indefensible. More importantly, however, the report only focuses on general costs and is unable to offer any insights into the much more important issue of cost-benefit analyses. (See discussion below, in sections IV and V.)

For the most methodologically sophisticated aspect of the study, the authors develop a regression model to test the supposition — which they see as key for competitive dynamics — that DCPS principals have a “high degree of flexibility in responding to student needs,”<sup>4</sup> and can therefore respond to the expressed preferences of consumers (i.e., the arrival or exit of additional students at their schools). Unfortunately, the authors provide only a few details about the model that was used for making that determination; thus, it is impossible to assess the accuracy of the results (again, please see the discussion below, in section IV).

### IV. THE REPORT’S METHODOLOGY AND ITS DISCUSSION OF PAST RESEARCH

This failure to make clear the methods used in the analysis typifies the shortcomings of the report for providing objective, grounded, or useful insights on the

topic of vouchers. The limitations of the analysis are particularly evident in three areas: (1) the failure to truly examine the efficiency of the program; (2) the subsequent inability to consider non-random participation in the program, and the consequent likely detrimental impact to DCPS and its students beyond immediate fiscal considerations; and (3) the over-reliance on hypothetical assumptions, rather than empirical evidence, regarding market dynamics.

**Missing Efficiency** — The report argues for the efficiency of the voucher program: “If federal grant subsidies were withdrawn and the program were [sic] locally funded, the city would still save \$258,402 due to the greater efficiency of school choice.”<sup>5</sup> However, efficiency can only be determined by looking at the ratio of inputs to outcomes. The analysis tells us nothing about the efficiency or effectiveness of the program simply because it considers only inputs, in terms of spending. Thus, this “fiscal impact” study does not say anything about value-for-money, efficacy, or results. This is problematic because, for instance, it is possible that — as with other forms of privatization — these education reforms lead to a reduction in both costs *and/or* services.

Indeed, the report could have addressed this issue by acknowledging some of the work already done on school costs. The report consistently contrasts per-pupil spending in public schools to tuition in private schools, but this is not an accurate comparison of resources devoted to schooling. For instance, the authors seem unaware that private school tuition is not necessarily an accurate reflection of private school costs, since tuition does not account for other inputs such as church support for schools, volunteer hours, or below-market salaries for religious workers.<sup>6</sup> Similarly, the analysis assumes and concludes that costs are inherently lower in private schools, but researchers have already shown that added costs in public schools are due largely to proportionately more special education students, and higher salaries for a teaching force that is, on average, more qualified and experienced.<sup>7</sup> Yet the report simply maintains that additional public school costs are due to a bloated central office bureaucracy. While this may be true to some degree, the report fails to offer any evidence of this (not even anecdotes, such as those published in the popular press). Additionally, the analysis does not consider the fact that larger organizations, such as urban districts, can also *save* money by centralizing some functions, thereby accessing economies of scale.

More importantly, the report ignores the substantial literature on what is already known about the efficacy of vouchers. Again, the report looks only at inputs (costs), but, in considering the value of those costs, it would be important to consider the results, and previous work on academic achievement in voucher programs has been quite mixed. While some researchers have found modest gains for students using vouchers, others have not — which is a crucial consideration in weighing the value of a program.<sup>8</sup> The report’s slight reference to other voucher programs focuses only on participation rates (not results) in other countries, where direct comparisons to the U.S. are difficult to sustain.

**Missing Costs** — Another limitation of the analysis is that the authors insist on considering costs only in terms of dollars immediately spent on schooling. The report

notes at several points that the public schools are relieved of the burden of educating students using vouchers: “In addition, DCPS no longer has to bear the cost of educating the students who leave.”<sup>9</sup> Yet the students leaving DCPS are not a random sample, but instead tend to exhibit certain attributes associated with being easier, and cheaper, to educate — for instance, the report indicates that they are less likely to require special education services, and come primarily from the earlier grades (which are less costly to operate). By definition, these students are from families exhibiting (through the act of choosing) a higher interest in their children’s education. This is an important consideration because a large and established body of research demonstrates that students learn not only from a school’s instructional program, but from the aggregate effect of the aspirations and attitudes of a student’s cohort — the “peer effect.”<sup>10</sup> Thus, when these students leave, so do attributes that would likely have boosted student achievement for the students remaining. Their more efficacious and involved parents also, of course, leave the public school community. As a result, DCPS incurs the high cost of educating the majority of students — those who have chosen not to leave and, who (1) are likely (on average) to be more difficult and costly to educate, (2) will be subject to a less beneficial peer effect, and (3) will not have the benefit of the volunteering and fundraising of departed parents. The report makes no attempt to account for these costs.

Instead, in the most sophisticated section of the analysis, the authors try to create a regression model to argue that “principals are able to reduce their costs by an amount similar to the reduction in [district-distributed] funding that they receive when a student leaves.”<sup>11</sup> That is, the authors contend that the departure of voucher students from public schools need not decrease the financial resources available to the public schools. This may or may not be the case. It is difficult to evaluate the details of their analysis because few details about the data or methods are explained. More importantly, the endeavor itself is not particularly useful. The problem with this analysis is that regression coefficients are *averages*, and in no way indicate that individual principals have flexibility to reduce spending on a per-pupil basis. Most school-level costs are for teacher salaries, and can be adjusted only through hiring and firing. Most of the time, a one-student change in enrollment involves little change in substantive costs to the school. It is only when the arrival or departure of that one student tips the scales to the extent that the class size in one grade grows or shrinks enough to justify the hiring or firing of an additional teacher. Thus, the only costs accounted for are rather marginal, at best.

**Missing Research** — Except for an unsupported foray into statistical models and a presentation of undigested descriptive statistics, the report contains a dearth of references to empirical evidence supporting its claims. For instance, the analysis is not grounded in the extensive research available on this topic. While just over a dozen reports are cited here, only one is from an arguably peer-reviewed publication.<sup>12</sup> Instead, the report relies on assumptions about how markets *should* work in public education according to an extreme, laissez-faire perspective on markets. The report is preoccupied — as was the legislation — with creating new market-style incentives to guide the behavior of educators in the District. This comes from a theoretical perspective (“public choice theory”) that denies non-market

motivations, such as professionalism, as a factor influencing public employees. Thus, the report contends that “Competitive pressure to maintain enrollment should be a driving force that motivates principals to design programs that best meet the needs of their students”<sup>13</sup> – making no mention of the possibility that principals might also be motivated by a desire to educate children. Indeed, the report is fraught with such platitudes to the market. The problem is that many of them are presented as self-evident; they are simply not supported by evidence. For example, the report notes that school problems “may be due to a lack of market pressure,”<sup>14</sup> but the authors never demonstrate that this is, in fact, the major problem (or even a substantial problem) facing schools. The authors claim that “external pressure [is] the only way to improve” schools.<sup>15</sup> In order to defend such a claim, the authors would have to disprove the efficacy of all other approaches to school improvement. The report makes no attempt to do this.

## V. THE VALIDITY OF THE REPORT’S FINDINGS AND CONCLUSIONS

The report’s conclusions lack evidentiary support in four key areas.

First, the report asserts that the voucher program responds to substantial demand on the part of parents to choose private schools for their children. While this may be true, the low application rate for vouchers seriously challenges that conclusion. Indeed, the vast majority (over 95%) of parents with eligible children have chosen not to apply for vouchers.<sup>16</sup> This is problematic for the logic of this report. Either most parents do not, in fact, exhibit a “strong desire...to exert control over their children’s education,”<sup>17</sup> or else these voucher advocates would have to claim that parents are generally poor judges of school quality (and, hence, should not be positioned as decision makers for their children’s educational future).<sup>18</sup>

Second, the analysis finds that principals do, in fact, exercise substantial control over variable costs, so that they may adjust school-level budgets to respond to the gain or loss of students. As noted above, this finding — the most sophisticated in the report — is not particularly insightful or useful.

Third, the report concludes that the program currently saves the District money on education costs, with most of those savings coming from the additional grant from Congress. Yet, as the report acknowledges, “some of those students attended private or charter schools prior to the inception of the voucher program.”<sup>19</sup> This is a crucial bit of information, because it indicates that, in the case of students already enrolled in private schools, the program is not saving taxpayers money, but instead costing them more money by shifting the burden from private to public coffers. Unfortunately, the study neglects to specify how many students were already enrolled in private schools.<sup>20</sup>

Furthermore, the report laments the additional grant from Congress to the DCPS (and charter schools) because it “essentially negates the oft-cited rationale for voucher programs — that creating competition will induce the public schools to operate more efficiently.”<sup>21</sup> This highlights the agenda at the center of the report, to further financially punish “failing” schools (and, by extension, the students in them)

to create a more perfect market, even though the report has not demonstrated that market-like conditions would necessarily benefit students.

Finally, the report concludes that additional savings would accrue even if the program were to be fully funded through local sources, due to competitive incentives and efficiencies. This claim is dubious because it relies on incomplete accounting of costs. As previously noted, the conclusion fails to account for the added public costs due to participation by families who obtain a voucher even though they would have opted for private schooling without the voucher policy. Additionally, not only does the analysis fail to consider hidden costs imposed on others when a voucher is used, but it neglects to include the actual costs of the program when it makes estimates of “savings” in a targeted program funded locally. The authors calculate savings by subtracting the amount of the voucher from the per-pupil cost of educating a typical student. However, when considering the cost of the program (something noted earlier in the report, but omitted later), the purported savings essentially wash-out (the difference being less than 50 cents a student). Furthermore, the report neglects to explain where “savings” come from. The authors assume that savings are “due to the greater efficiency of school choice,” or the “economic benefits of school choice.” Those “savings,” however, have nothing to do with competitive “efficiency” — as the authors themselves note in their calculations of the current program. Instead, “savings” are simply (1) the lower amounts of money devoted to cheaper-to-educate children encouraged to flee public schools, and (2) lower teacher salaries.

## VI. THE REPORT’S USEFULNESS IN GUIDING POLICY AND PRACTICE.

The District of Columbia is not a typical case, and, to the authors’ credit, they do not explicitly argue for the generalizability of this analysis to other districts. However, even lessons for education policy in the District are tenuous. The authors assert that the high spending in the District is a result of waste, but they fail to offer proof. On the other hand, they generally ignore the relatively high degree of poverty in the District, a condition that often entails additional spending in order to obtain even modest results on measures of academic achievement.

Moreover, the analysis ignores the issue of ceding public accountability for education to private interests. Although there are many examples of fraud and waste in the public schools, abuses in the private realm are also well documented. In fact, moves to privatize education through vouchers in places such as Milwaukee and Florida have led to criminal mischief and abuse. It is evident from the opening sentence that this report approaches this issue from a definite ideological perspective, preoccupied with applying market-oriented economic logic to public schools. The report begins by praising privatization in the telecom and airline industries, ignoring serious problems in those areas (e.g., the failure to lower cable rates and poor customer service from air carriers). From the perspective of a researcher, privatization should not be pre-judged as inherently bad or good; success should be determined empirically – quite possibly, such success depends on the peculiarities of a given sector. While privatization might make sense with a private good such as information technologies, public goods such as public education may be a different

story. Values such as equity, access, and diversity often resist private-style provision; forcing public goods into a business-style model can lead to unpredictable and often perverse outcomes.<sup>22</sup> Ironically, these advocates of purer markets for education are essentially asking for greater government subsidies for schools, and a greater government role in the private sector.

## VII. ADVICE TO POLICY MAKERS CONCERNING THIS REPORT.

The Cato/Friedman report is useful mostly as a descriptive document on the DC voucher program, and as evidence of further market-based designs for public education. The analysis, however, is strangely divorced from the comprehensive research already published on this issue. Perhaps most importantly, the report neglects not only the hidden costs, but even the actual costs of the program. Inexplicably, the analysis acknowledges, but fails to consider, that a substantial proportion of the program's costs are now devoted to paying for the private schooling of families that were not previously in the District's public schools. So not only does this not "save" the District money in this case, it actually adds to the taxpayer burden by subsidizing the private choices of families who were already paying for private school. The recommendation of the report that the voucher program be universally available and locally funded as a way to save money is simply not supported by the evidence in the report.

Finally, the analysis tells us nothing about the effectiveness or efficiency of the District's voucher program, even though that is a central claim made in the report regarding the benefits of competition. Although focused on "savings" in the form of reduced spending on schools, the analysis begs the question of whether most citizens are interested in reducing educational costs without regard to the issues of efficiency and quality. Taxpayers have an interest in the efficient use of public revenues, but saving money on taxes for education does not trump the need for better public schools for many citizens. Public opinion polls have repeatedly shown that people are willing to spend more money for quality schooling.<sup>23</sup> Because of its overwhelming focus on reducing costs (at any cost) with no empirical attention paid to issues of quality, the report contributes little to the productive deliberations of policy options.

## NOTES & REFERENCES

- <sup>1</sup> The authors give no indication of whether or not the NAEP sample for DC included the substantial proportion of DC students in charter public schools.
- <sup>2</sup> Michos, L. & Aud, S. (2006, January 31). Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program. Washington D.C.: Cato Institute, pg. 4. Retrieved February 1, 2006, from [http://www.cato.org/pub\\_display.php?pub\\_id=5424](http://www.cato.org/pub_display.php?pub_id=5424)
- <sup>3</sup> Michos, L. & Aud, S. (2006, January 31). Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program. Washington D.C.: Cato Institute, pg. 4. Retrieved February 1, 2006, from [http://www.cato.org/pub\\_display.php?pub\\_id=5424](http://www.cato.org/pub_display.php?pub_id=5424)
- <sup>4</sup> Michos, L. & Aud, S. (2006, January 31). Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program. Washington D.C.: Cato Institute, pg. 6. Retrieved February 1, 2006, from [http://www.cato.org/pub\\_display.php?pub\\_id=5424](http://www.cato.org/pub_display.php?pub_id=5424)
- <sup>5</sup> Michos, L. & Aud, S. (2006, January 31). Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program. Washington D.C.: Cato Institute, pg. 2. Retrieved February 1, 2006, from [http://www.cato.org/pub\\_display.php?pub\\_id=5424](http://www.cato.org/pub_display.php?pub_id=5424)
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- <sup>7</sup> See:  
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- <sup>9</sup> Michos, L. & Aud, S. (2006, January 31). Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program. Washington D.C.: Cato Institute, pg. 7. Retrieved February 1, 2006, from [http://www.cato.org/pub\\_display.php?pub\\_id=5424](http://www.cato.org/pub_display.php?pub_id=5424)
- <sup>10</sup> See:  
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- <sup>11</sup> Michos, L. & Aud, S. (2006, January 31). Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program. Washington D.C.: Cato Institute, pg. 10. Retrieved February 1, 2006, from [http://www.cato.org/pub\\_display.php?pub\\_id=5424](http://www.cato.org/pub_display.php?pub_id=5424)
- <sup>12</sup> See note #9 in
- Michos, L. & Aud, S. (2006, January 31). Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program. Washington D.C.: Cato Institute. Retrieved February 1, 2006, from [http://www.cato.org/pub\\_display.php?pub\\_id=5424](http://www.cato.org/pub_display.php?pub_id=5424)
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- <sup>16</sup> Wolf, P. J., Gutmann, B., Eissa, N., & Puma, M. (2005). *Evaluation of the Dc Opportunity Scholarship Program: First Year Report on Participation*. Washington, DC: U.S. Department of Education/Institute of Education Sciences (p. xi).
- <sup>17</sup> Michos, L. & Aud, S. (2006, January 31). Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program. Washington D.C.: Cato Institute, pg. 4. Retrieved February 1, 2006, from [http://www.cato.org/pub\\_display.php?pub\\_id=5424](http://www.cato.org/pub_display.php?pub_id=5424)
- <sup>18</sup> Indeed, Kevin Chavous, mentioned in this report as a person committed to external pressure for school improvement, recently appeared on ABC's 20/20, claiming that parents were a poor judge of school quality. According to John Stossel: "Even though people in the suburbs might think their schools are great, Chavous says, 'They're not. That's the thing and the test scores show that.' Chavous and many other education professionals say Americans don't know that their public schools, on the whole, just aren't that good." Retrieved January 28, 2006, from <http://abcnews.go.com/2020/Stossel/story?id=1500338>
- <sup>19</sup> Michos, L. & Aud, S. (2006, January 31). Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program. Washington D.C.: Cato Institute, pg. 8. Retrieved February 1, 2006, from [http://www.cato.org/pub\\_display.php?pub\\_id=5424](http://www.cato.org/pub_display.php?pub_id=5424)
- <sup>20</sup> Actually, the proportions are rather substantial. According to the official evaluation, over 40% of students in the program were previously in the independent sector (private or charter schools) — over 28% were already in private schools. The numbers might be deflated because we do not know what proportion of students entering school for the first time (in the early grades) with a voucher would have been enrolled in private schools anyway. See:

Wolf, P.J., Gutmann, B., Eissa, N., & Puma, M. (2005). *Evaluation of the Dc Opportunity Scholarship Program: First Year Report on Participation*. Washington, DC: U.S. Department of Education/Institute of Education Sciences.

<sup>21</sup> Michos, L. & Aud, S. (2006, January 31). Spreading Freedom and Saving Money: The Fiscal Impact of the D.C. Voucher Program. Washington D.C.: Cato Institute, pg. 9. Retrieved February 1, 2006, from [http://www.cato.org/pub\\_display.php?pub\\_id=5424](http://www.cato.org/pub_display.php?pub_id=5424)

<sup>22</sup> Kuttner, R. (1999). *Everything for Sale: The Virtues and Limits of Markets*. New York: University of Chicago Press.

<sup>23</sup> Belsie, L. (1999, February 4). Spending on US Schools Is More Popular Than Ever. *The Christian Science Monitor Electronic Edition*. Retrieved February 5, 1999, from <http://www.csmonitor.com/durable/1999/02/04/fp4s1-csm.shtml>

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