

Public Subsidies for Private Schools: Effective Policy or Big Distraction?

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Private education has long been the choice of elites and those seeking religious education for their children in post-Enlightenment secular societies. In that role it has rarely been questioned even after the rise of mass public education. If parents wanted to pay for their children’s education using private resources, they have almost universally—except in fascist or communist dictatorships—been accorded the right to do so. This parallel existence of mass public and specialized private education has been the norm in Europe, the United States, Latin America, Oceania, and parts of Asia for more than a century. However, in the past few decades, private education has been pushed politically into a new role—as a “preferred alternative” to public education in terms of a strategy to improve mass education and to make it more cost-effective. This version of educational politics claims that as a preferred alternative, private schools should have a similar right to public funding as public schools.

Thus, the main question regarding private education in the current debate is whether public monies coming from taxpayers should help finance students to attend privately-owned, privately-run schools. Yet, equally important questions, more rarely asked, are whether (a) private schools taking public monies should be held to the same level of accountability as public schools—that is, what kind and degree of regulation do such public subsidies carry with them so that private education is sufficiently accountable to the public—and (b) whether the entire proposal of shifting public monies to private from public education is largely a less than effective investment strategy and thus a distraction from more effective efforts to improve learning focused on public education. The answers to these questions are nested in a larger set of issues regarding the benefits and costs to society of providing publicly funded education through a publicly or a privately managed system, or a combination of the two.

In this policy paper, we (1) explore the theoretical discussion around publicly subsidizing private education; (2) develop a framework for understanding the assumptions and rationales behind subsidizing private education; (3) assess the empirical evidence regarding social benefits and costs of publicly-subsidized private religious and secular schools (and home schooling) as it might be applied in a country such as Brazil, and (4) examine what the data tell us about the need for regulatory frameworks in publicly-funded private systems.

The Background

Until well into the 19th century, the way almost all children were educated in most of the world was in private education, much of it in home tutoring. Yet, as early as 1775, Adam Smith argued in *The Wealth of Nations* that publicly-financed schooling (“establishing in every parish or district a little school”) was needed for the “common people.” Such schooling would be oriented to teaching these “common” children to read and write as a means to socialize them into national norms of civilized behavior (Smith 1937, pp 734-737).

It was in the most democratic and wealth-equal country of its time, the United States, that this form of education--locally-financed public schooling (“the common school”)—became the principal education model by the mid-19th century, in part because it was considered fundamental to promoting economic growth and building a democratic society. Indeed, one important theory explaining the worldwide spread of publicly-funded education in the late 19th and first half of the 20th century is that predominantly public mass education became the symbol of modernity, specifically the modern nation-state (Meyer et al, 1992).

The two main arguments for public schooling were therefore that (1) building a civilized, modern society required children to attend schools (Mill, 1869) and that if the public sector did not fund such schooling, the young would underinvest relative to what was required for societies’ economic and social development goals; and 2) public education was both an expression of and a principal promotor of democratic ideals and it was fundamental to incorporating young people from different family backgrounds into a common notion of “citizenship” in a nation-state (Meyer et al, 1992). This notion of the common good and that public schooling both represented the highest collective ideals of the nation-state and simultaneously produced crucial public goods—what economics call “externalities”—have remained the major arguments for public education to this day. The notion of public schooling as promoting the common good has gradually morphed more recently into the concept of public schooling as a human right—as part of what the nation-state should guarantee its citizens in return for their membership and tax-paying obligations.

Even so, in 2015, about 20 percent of all primary schoolers and 29 percent of secondary schoolers in the world attended private schools (the proportions fall to 16 and 22 percent if we exclude India) (UNESCO STAT, 2019). In most countries, such as India, where more than 50% of secondary school students attend private institutions and pay almost all the costs through school fees, and throughout Latin America, private education is largely unsubsidized by public monies. But in some countries, private schools (predominantly schools run by religious organizations) are subsidized, often by governments paying teachers’ salaries (this is typical of religious private schools in Europe, for example).¹ In turn, because private education accepts public funding is subject to considerable regulation by government agencies.

¹ Furthermore, in most countries, private schools are organized as non-profit entities that pay no taxes. Although not a direct subsidy, exemption from taxes is a *form* of subsidy.

For example, in the Netherlands, starting in the 1920s, a compromise was reached between the two main religious groups, Protestants and Catholics, that religious schools would be completely subsidized by government and, in a sense, would serve as “public schools” and be regulated as such. Families could send their children to the religious schools of their choice, but the schools would have to follow the current national curriculum and be financially and educationally accountable to the public through government inspection and other controls. In today’s Netherlands, even though religiosity has declined substantially and the religious nature of the schools has almost disappeared, this system continues with the addition of about one quarter of schools run directly by the Dutch government,.

Another example of a nationwide policy to subsidize private education is Chile. Under the military regime, in 1981, the Chilean government established a universal voucher plan, which allowed students to attend private primary and secondary schools without paying fees, if those schools would accept as payment a government voucher equal to the cost per student in public schools. Today, more than 50 percent of students in Chilean primary and secondary education attend private voucher schools and another 7 percent attend private elite schools that do not accept vouchers. A big change in the voucher plan in the 1990s was that private voucher schools could accept fees from parents and could select their students, if they wished. At the same time, Chilean schools accepting vouchers are subject to many of the public accountability criteria used to monitor public schools, such as student testing and financial audits. Teachers teaching in private voucher schools also need to be certified, although unlike public school teachers, they are hired as independent contractors.

Yet a third example of such subsidization is in Australia, where, since the 1960s, when Catholic education faced bankruptcy, the federal government began subsidizing private schools. Today, about 62 percent of students attend public schools, 23 percent, private Catholic schools, and 15 percent, private independent schools. Federal and state governments subsidize both kinds of private schools, but Catholic schools receive about 72 percent of their funding from the government, and private independent schools, less than 30 percent. All schools must teach a similar core curriculum and all are tested in the national evaluation system.

Thus, in the first quarter of the 21st century, most of the world’s children attend publicly-financed, publicly-run schools (where in some countries, student pay additional fees) , and about one-fourth attend private schools mostly at their families’ expense. Finally, in some countries, a high fraction of private schools receive direct public subsidies and are usually held accountable in various ways by the public sector.

The Arguments

The Case for Publicly Funding Education

Schools, as institutions, produce both private and public goods. By teaching skills valued in the labor market, they enhance an individual's productivity, wages, access to more enjoyable work, and personal decision-making, such as health and finances. They also produce public goods—more productive individuals can increase others' productivity and may reduce public costs of homelessness or unemployment (Wolfe, 1995). Since schools are also charged with inculcating students with moral compass—a sense of right and wrong from a societal standpoint—and a sense of citizenship, more schooled individuals may contribute to a more tolerant, ethnically and socially integrated, secure (lower crime rate), a more participative civil society, and to democratic, effective government (McMahon, 2000).

The argument for using public money to subsidize education was therefore that a more educated population—a literate, more skilled population—was good for society as a whole. Furthermore, a common, publicly funded school system would produce a common experience for young people, creating a citizenry educated into a common set of national values. If families were made to pay the full costs of their children's education from family income, this would result in a lower than desirable level of education in the population, and less than optimum level of social benefits from education.

Private education in most countries, including in the U.S. and Brazil, has traditionally existed alongside tax-supported public education to satisfy some groups of education consumers with particular religious or other needs who were willing to pay privately to satisfy these needs. In the U.S., about 80% of private education is organized by religious groups, and often, in the U.S., religious groups composed of people from different race/ethnic/national origins. Twenty percent of the 10 percent of students in private education attend “secular” schools, many of them catering to high-income groups willing to pay high fees for small class sizes and other private “benefits” of elite, college preparatory education.

The Arguments for Publicly Funding Private Education

Milton Friedman was the first to propose school vouchers—public funding for private schools willing to accept such money (Friedman, 1955). His arguments for subsidizing private education were that:

- It would allow families/students to choose among various alternatives offering different combinations of educational services, thus improving consumer welfare (increasing the private good). Friedman argued that this would be especially true for low-income families since they currently do not have the economic capacity to move into higher cost housing areas with “better schools.” With vouchers, more varied (private) schools would be induced to move into low-income areas and private choice to the poor.
- It would lower the total cost of schooling because it would provide competition to the *monopoly* of public education. By levelling the financial playing field

between private and public schools, allowing more cost-efficient private schools to compete for students with public schools. Public school personnel would be compelled to exert more effort and thus produce more academic and other outputs, lower the cost per unit of quality, and hence would increase the public good.

The original Friedman argument did not claim that private schools would deliver better education; rather only that they would provide greater educational choice and be more cost-effective. Later writers, such as Chubb and Moe (1990) claimed that private schools delivered higher quality education. They argued that private schools are less bureaucratic, hence more able to innovate and to use the latest “technologies” (both information technologies and management techniques) to be more productive. Chubb and Moe also agreed with Friedman that competition from private schools would make public schools more effective.

In the 1980s, Albert Shanker, the head of the American Federation of Teachers, the second largest teachers’ union in the U.S., came up with the notion of *charter schools* as special *public* schools released from many of the bureaucratic requirements imposed on public schools. Such schools, “chartered” by school districts and supported by the teachers’ union, would have the mission of innovating and incubating these innovations to be adopted by public schools more generally. Shanker’s idea was not implemented, but Chubb and Moe resurrected it in a different form: they argued for *privately run* schools to be directly subsidized as charter schools rather than giving vouchers to individual families.

A less usual exercise of parental choice is to school children at home. Only a limited number of countries currently allow home schooling, and the U.S. is one of them. The U.S. does not subsidize home schooling, and neither Friedman nor Chubb and Moe advocated for public subsidies to families home schooling children. But there is evidence that a significant fraction of home schoolers are indirectly subsidized by taking online courses through some regular public or charter school, or by participating in sports and other extracurricular activities in nearby schools (Prothero, 2016). In addition, after rapid growth in the early 2000s, home schooling enrollment leveled off,² and this could be partly attributed to the greatly availability of charter schools, allowing groups of parents who otherwise would have home schooled their children to organize a charter school that represents their home schooling philosophy and to get public subsidies.

² The number of students being home schooled increased from 850,000 in 1999, 1.7% of total K-12 enrollment, to 1.52 million in 2007, or 3% of total K-12 enrollment. Since 2007, home school enrollment has risen much more slowly, so now represents 3.4% of all children 5-17 years old in school. Home schooling in the U.S. is spread rather evenly across parental educational levels, but much more likely among Whites and Hispanics, among low-middle income families, and, logically, concentrated in two parent households where only one of the parents works (NCES, 2017, Table 206.10). More than one-fourth of home schoolers live in rural areas.

To summarize, advocates of subsidizing private schools with public funding argue that providing such subsidies increases consumer choice, therefore increases the private good. Providing such subsidies also increases the private good because, they argue, private schools are more effective in increasing student skills (academic achievement and attainment), therefore individual productivity and wages.

They also claim that public funding for private schools would increase competition between private and public education, making public schools more effective and therefore increasing the *public* good. And, finally, providing subsidies would lower the overall cost of schooling (private schooling, advocates, claim, is cheaper than public schooling) therefore improving overall educational cost effectiveness. This, too, would increase the *public* good.

Advocates of charter schools (also a form of private education) make an additional argument: by publicly funding (private) schools that would operate with fewer regulations, these (private) schools could be more educationally innovative, and their innovations, in turn, would put competitive pressure on public schools to improve and would provide examples that private schools could adopt (Chubb and Moe, 1990). Some advocates have also argued that by providing educational alternatives to low-income families outside their segregated neighborhoods, charter schools could reduce social class and racial school segregation (Nathan, 1998).

The U.S. public has generally been much more favorable to publicly funding somewhat or even rather highly regulated privately operated charter schools than to the notion of giving public money to unregulated private school operators through student vouchers. Given this public support and promotion by well-organized advocacy groups, the number of charter schools and students attending them have grown rapidly in the U.S. in the past fifteen years. In 1999-2000, only 0.6 percent of all K-12 students in the U.S. attended charter schools. In 2013-14, this had increased to about 5.3 percent. However, almost 50 percent of these students are concentrated in five states—Arizona (where about 16% of all students attended charters), California (7.5%), Colorado (10%), Florida (8%), and Michigan (8.5%) (NCES, 2015). Further, in certain cities such as Washington, D.C. and New Orleans, very high fractions of the total school populations attend charter schools.

Despite being much less widely supported, voucher programs have also expanded in states such as Florida, Wisconsin, Ohio, Louisiana, and Arizona. Essentially all voucher programs in the U.S. are “targeted,” which means that they are not available to all students, as in Chile and Sweden. Some vouchers are targeted to students with special needs, while others are limited to students whose families earn a certain multiple of the federal poverty level income. In Milwaukee, for example, the original limit was family income below 1.85 times the official poverty level; eligibility has now been increased to 3.0 times the poverty level. The ratio varies from voucher program to voucher program, but none is general. There have been attempts to pass universal voucher programs in several states (California in 1993 and 2001; Utah in 2007), through the ballot initiative process, but these have failed. With the nomination of Betsy DeVos as Secretary of

Education in the Trump administration, vouchers have received a boost from federal funding made available to help states financially to initiate new programs.

Voucher programs have also had a long history in countries such as Chile and Sweden, where vouchers are universal, and Colombia, where they are targeted. Together with the U.S. voucher and charter experiences, they provide a solid basis for evaluating their impact on schooling and, more concretely, the claims made by those who advocate for subsidizing private schools because they broaden educational choice for parents, are more educationally innovative, significantly improve student academic performance, improve the cost-effectiveness of education generally and public education especially, and may be more integrative than public schools in a context of considerable racial and social segregation.

The Empirical Evidence

Is Student Achievement in Public Schools Worse than in Private Schools and Stagnant Over Time?

Before turning to the large body of empirical studies that test these various arguments for publicly subsidizing private education, it is important to discuss some basic claims that voucher and charter advocates, in arguing for such subsidies, make about public education. The first is key to both Friedman's and Chubb and Moe's arguments, namely that public education is significantly less efficient than private education. Thus, subsidizing private education will improve education overall, simply by increasing the proportion of students in privately-run schools.

It is true that schools everywhere in the world serving lower socio-economic background (SES) students have lower average academic performance than schools that serve higher SES students, and this is certainly the case in the U.S. and Brazil. There is little doubt that public education students in low-income urban areas attend schools with many social and academic problems, and therefore that many families in these schools are dissatisfied with their children's schooling and would prefer alternatives (Buckley and Schneider, 2009; Chubb and Moe, 1990). It is also true that students attending public schools are, on average, from lower social class family backgrounds than students attending private schools.

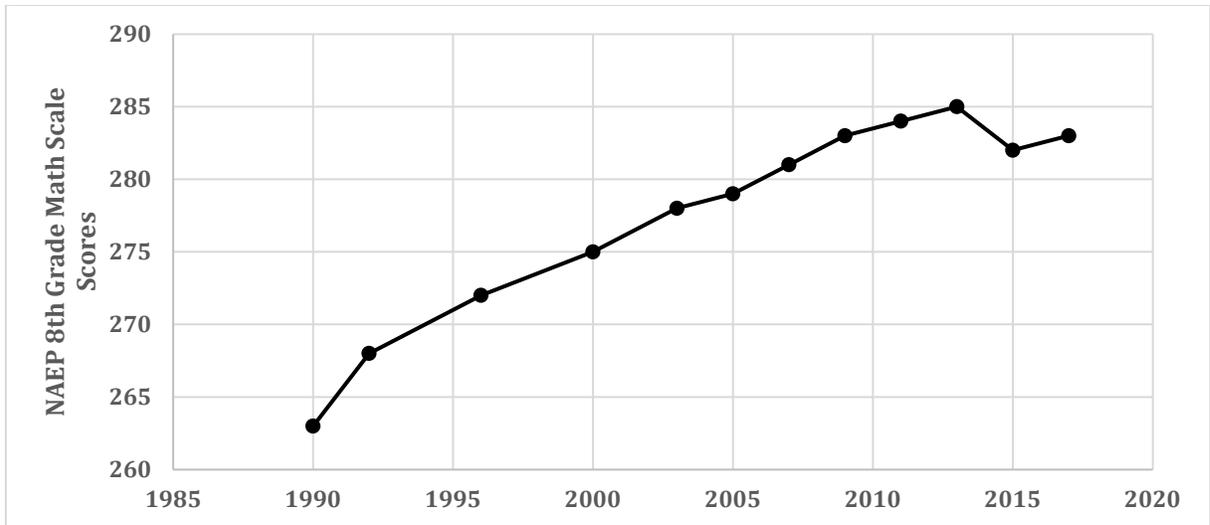
Yet, once we account for these socio-economic background differences, for many countries of the world where rigorous empirical studies have been carried out, students in public schools are shown to achieve at the same level as students in private schools. Studies in the U.S. (Carnoy, 2007; Lubienski and Lubienski, 2014; Epple et al, 2017a; Epple et al, 2017b); Chile (McEwan and Carnoy, 2000; McEwan and Urquiola, 2008); Latin America (Somers and McEwan, 2004), and Australia (Morsy et al, 2018) show that students of similar socio-economic background do similarly well or poorly in public and private schools. There are a few rigorous studies in South Asia, notably India, that suggest higher achievement in private than in public schools for similar SES students (for example, Kingdon, 1996). Yet others studies show minimal differences in the

effectiveness of private and public school in India (Muralidharan and Sundararaman, 2015). More recent studies evaluating a targeted voucher plan in Colombia show higher achievement and attainment outcomes in established private secondary schools for low-income students receiving vouchers (Angrist et al, 2002; Angrist et al, 2006). Various analyses of Sweden’s voucher program have produced some estimates showing somewhat higher subject grades for students attending voucher schools (Bohlmark and Lindahl, 2007; 2008), but others have found evidence showing that private schools tend to grade tests more leniently, casting doubt on earlier results (Hinnerich and Vlachos, 2017).

A second implicit assumption is that without competition from private schools, it is extremely difficult to make public schools improve—the claim is that when it acts as a “monopoly,” there is simply no incentive for public education to try to get better, and even if some public officials try to make improvement reforms, these will be resisted by teachers’ unions (Kingdon, 1996). In the U.S. and Brazil, and in many other countries, however, this assumption of public school inertia is simply not true. For example, U.S. mathematics test scores have increased on the National Assessment of Educational Progress (NAEP), on average, since 1992, by almost a standard deviation in 4th grade and two-thirds of a standard deviation in 8th grade (Carnoy, Garcia, and Khavenson, 2015a; see also Figure 1, below). Gains in reading have been smaller but positive and significant. Gains have taken place across all race/ethnic groups and across all SES groups. There is some evidence from the PISA and TIMSS tests that the gains have been greater among lower SES students (Carnoy and Rothstein, 2013).

If we look across U.S. states, we find a similar result: all states have made gains, and some states that have implemented a series of reforms (higher mathematics standards, for example) have made very large gains over a long period of time. States with the highest percentages of subsidized private schools (mainly charters) have not generally made larger gains than states with low percentages of students in charter schools. Two of the states with the largest proportion of students attending charter schools—Louisiana and D.C—have done well in 8th grade mathematics gains, but two others with high proportions of charter school students have had among the lowest gains—Arizona and Michigan (Table 1).

Figure 1. United States: Gains in 8th Grade NAEP Mathematics Scores, 1990-2017



Source: NCES, NAEP, Data Tool.

Table 1. United States: SES-Adjusted 8th grade NAEP Mathematics Annual Gains, Lowest and Highest Gaining States, 1992-2015.

<i>State</i>	<i>1992</i>	<i>2013</i>	<i>Annual Gain</i>
Iowa	273.0	283.6	0.51
Connecticut	265.7	281.5	0.75
North Dakota	270.8	286.9	0.77
Nebraska	268.6	285.6	0.81
Arizona	266.0	285.1	0.90
Michigan	262.0	281.0	0.91
[...]			
Ohio	263.2	293.1	1.43
Louisiana	258.0	290.1	1.53
District of Columbia	259.3	292.2	1.56
North Carolina	260.2	296.0	1.71
Massachusetts	262.1	298.4	1.73

Source: Carnoy, Garcia, and Khavenson, 2015

We can make a similar case for mathematics test score gains by students in Brazil’s public education system both on the Brazilian national test (SAEB) and on the OECD’s international PISA test (Carnoy et al, 2015b). The increases in academic achievement have been largest for lower SES students (Carnoy et al, 2015b) and, as in the U.S., students in some Brazilian states have made much larger gains than in others (Carnoy et al, 2017). Especially notable is the economically poor state of Ceará, whose public school students have made very large achievement gains through a series of reforms undertaken by the state’s educational administration beginning in the 2000s.

Students in other states, such as Minas Gerais, and some large municipalities, such as Rio de Janeiro, have also made substantial gains in the past 10-15 years.

To summarize, there is little empirical evidence to support the critical assumption of school choice advocates that subsidizing private schools is necessary because the public education system is poorly performing, stagnant, and un-innovative (or resistant to reform). The failure of this assumption has major implications for public policies, which we will discuss after we review the empirical evidence for claims about the benefits of public funding for private schools.

Does Subsidizing Private Education Increase Private Benefits?

A major claim of advocates for subsidizing private schooling is that private benefits will greatly increase from broadening parents' choices of schools and types of education for their children. The argument here is that rather than applying the one size fits all educational model typically offered by public education, private schools can respond nimbly to diverse demand for education. Children and their learning styles vary, and private education can offer various approaches to education that meet such variation. Furthermore, for parents that cannot afford to move into higher income neighborhoods, subsidized private educational alternatives have an especially big impact on parents' welfare by offering a way out of unsatisfactory neighborhood public schools.

Surveys of parents suggest that expanding school choice does increase satisfaction among the parents who move their children from public schools to subsidized public alternatives (Buckley and Schneider, 2009). School choice does not have to be based on private alternatives, of course. Many districts in the U.S. have public school choice, and Minnesota was the first state to offer public school choice. In all these cases, satisfaction among parents who take advantage of choice is positive.

Since vouchers in the U.S. are targeted at a lower-income population, the private benefits they provide in terms of increasing average parent satisfaction from being able to choose schools for their children accrues to this targeted group. The claim that subsidizing private education has a positive effect on *low-income families'* private benefits is therefore supported by such evidence from satisfaction surveys. If vouchers were general, as in Chile, this would provide an immediate windfall to families that were already sending their children to private schools, and would probably provide equally great private benefits (greater satisfaction) to higher income as to lower income families.

The distribution of private benefits is much more disparate when public subsidies for private education are implemented through charter schools than when the mechanism for subsidies is vouchers targeted at lower-income students. In the largest charter school enrollment states—California, Florida, Arizona, and Michigan—white students were more likely to attend a charter school than Hispanics in California and Arizona; whites were slightly less likely to attend a charter than their representation in the school population in Florida, and Hispanics somewhat more likely, and in Michigan African-Americans were much more likely to attend a charter than whites. This suggests that in

many states, there could be a high proportion of middle class whites taking advantage of publicly funded private education possibly to escape majority minority public schools or to choose a private school with a curriculum they like better than the public schools' curriculum. Thus, private benefits of choice from charters may not go mainly to low-income parents unable to move into a neighborhood with a better public school.

Furthermore, Friedman's argument that many alternatives to traditional public education would arise in the marketplace once public funds are made available to private educational institutions has not been borne out in practice. Most private voucher and charter schools are as or more "traditional" than public schools. A number of "no excuses" charter school chains have sprung up which focus on discipline, strict rules of behavior, and high standards, such as the KIPP schools, Uncommon Schools, Democracy Prep Schools—they certainly differ from public schools (Angrist et al, 2009), but do share with public schools in the age of school accountability an intense focus on teaching to the test (Bean, 2010--<http://edcommentary.blogspot.com/p/no-excuses-charter-movement.html>). Yet, on average, publicly subsidized private schools are very similar to public schools in the kind of education they provide students (as are most private schools in general—see Benveniste et al, 2002), mainly because most parents want an education for their children which is like the education they received (Anyon, 1980) and are very conservative in terms of not deviating from a "standard" form of schooling (Brown, 1992).

The other main private benefits claimed to accrue to students and their families from publicly subsidizing private education are higher academic performance for students switching from public to subsidized private schools, and an increase in public school students' performance because of the competition from inherently more effective (less bureaucratic, more innovative) private schools

These claims have been researched extensively (for summaries, see Eppel et al, 2013; Eppel et al, 2018; Carnoy, 2017). Randomized control trials (RCTs) have been used to evaluate voucher programs in cities such as New York, Washington, D.C. (several different experiments), and Dayton, Ohio, and have shown no significant student performance effects of attending a private voucher school. Impact evaluations of the largest voucher plans in Milwaukee, Ohio, and Louisiana, as well as a smaller voucher plan in Cleveland, all show no or negative effects of attending voucher schools. Studies of the "universal" voucher plan in Chile also show no significant impact on test scores of attending subsidized private schools. In Colombia, however, voucher plan for low-income students to attend private secondary schools does result in higher graduation rates, college attendance, and incomes for those who receive vouchers (Angrist et al, 2002; 2006).

The results are similar for charter schools: on average, students attending charter schools nationwide do no better than matched students in public schools (CREDO, 2015), although there are charter schools in which students do perform better (Angrist et al, 2013), and many in which students perform worse (CREDO, 2013; Angrist et al, 2016).

The argument that academic performance for students in public schools (private benefits) increase because competition from subsidized private schools compels public schools to be more effective to prevent students from leaving, is supported by some evidence in cases such as Milwaukee, Florida, and Sweden (see Eppel et al, 2018 for a summary; also, Carnoy et al, 2007), but the estimated effects have been generally small or non-existent overall (Belfield and Levin, 2002). In Chile, Hsieh and Urquiola (2006) found minimal competition effects on public school student performance. Most recently, a large-scale experiment in India compared students' public school performance in rural communities where vouchers to attend private schools had been awarded with public school student performance in rural communities where vouchers had not been awarded (Muralidharan and Sundararaman, 2015). The estimates showed no significant difference in student performance in the two types of communities.

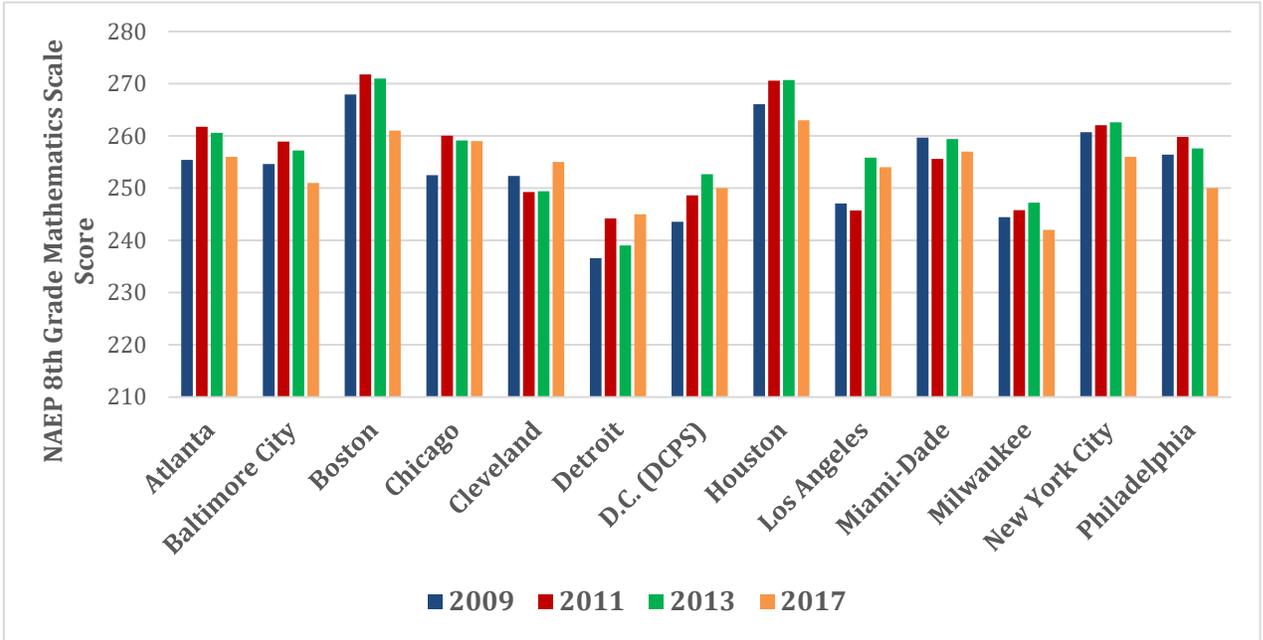
Perhaps the most convincing example of how little effect on student academic performance has been is the Milwaukee Public School District. Milwaukee is a city with the nation's second largest and longest running voucher program (it has been operating since the 1990s). About 28,000 students currently attend private schools using vouchers under the Milwaukee Parental Choice Program (MPCP), and about 75,000 students attend Milwaukee's public schools (including charter schools); this constitutes one of the lowest shares (along with Washington, D.C., and New Orleans) of traditional public school enrollment in the country. Milwaukee has been a totally "choice" school district for almost 20 years—students can select among traditional public schools, public magnet schools, charter schools (if places are available), and, if eligible,³ private voucher schools (Carnoy et al. 2007). As a result, only one in four students attends his or her neighborhood school. If subsidizing private schools and promoting school choice has a significant positive impact on student achievement, Milwaukee should be among the highest scoring urban school districts in the nation. Milwaukee's private-school students should be outscoring its public-school students, and students in traditional public schools should have made gains because of the intense competition from private voucher and from charter schools.

However, none of these characterize Milwaukee's school outcomes. The African American students who make up roughly two-thirds of Milwaukee's student body are the main recipients of vouchers and the main enrollees in charter schools. Their academic performance is thus important in assessing the overall impact of choice in the district. Figures A and B compare the National Assessment of Educational Process (NAEP) scores of black students in eighth-grade math and reading in 13 urban U.S. school districts. Black students in Milwaukee have lower 8th -grade math scores than students in every city but Detroit—notably, another urban district with a high rate of enrollment in charter schools. In reading, Milwaukee's black eighth-graders do even more poorly. They

³ Originally, voucher eligibility in Milwaukee was family income below 175 percent of the federal poverty line. This requirement has edged upward, so that today, it is 300 percent of the poverty line, and 220 percent to be eligible for a tuition waiver in those private high schools permitted to charge additional fees for voucher recipients.

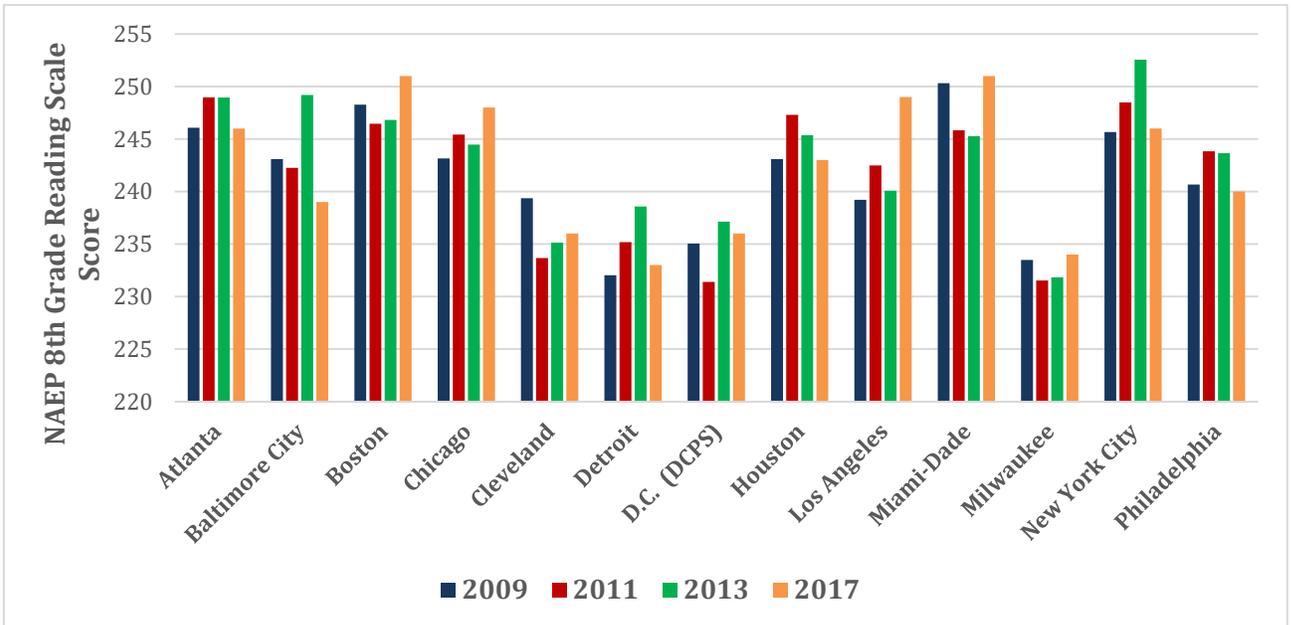
score lower than black eighth-graders in all other 12 city school districts. Although not represented in a figure, fourth-grade NAEP scores for the 13 cities show the same pattern.

Figure 2a. NAEP Eighth-Grade Mathematics Scores of Black Students in Large Urban School Districts, 2009–2013



Source: NCES, NAEP Data Tool.

Figure 2b. NAEP 8th Grade Reading Scale Scores in Large Urban School Districts, 2009-2013



Source: NCES, NAEP Data Tool.

It is possible that Milwaukee students had initially even lower NAEP scores than students in other urban districts and made much larger gains than other districts' students since the early 2000s, after the current voucher plan was implemented in 1998. However, we cannot test this proposition using NAEP data because Milwaukee only participated as a district in NAEP in 2009, 2011, and 2013. Students in Milwaukee's public schools did make large gains on the Wisconsin state test in fourth and eighth grade mathematics from 2007 to 2008, but have not improved since, and they did not make significant gains in reading between 2007 and 2011. Thus, given that the only substantial test score gains were in math and only for one year, the argument that publicly funding private schools has turned Milwaukee into a high achieving school district is weak.

The Public Benefits of Publicly Funding Private Schools

Private benefits in the form of increased student performance in school and increased high school graduation can also mean greater public benefits. If students' academic performance increases significantly or graduation rates from high school increase because of publicly funding private schools, a series of social benefits may follow. For example, workers that are better at mathematics and are better readers may not only be more productive and individually earn higher wages, they may increase the wages of fellow workers by helping them make better decisions or learn on the job (Wolfe, 1995). Furthermore, higher academic performance in primary and secondary schools may make it more likely that students' graduate high school, and private schools may do a better job of helping students graduate than public schools even without increasing their academic performance (Neal, 1997). High school graduation is associated with a lower likelihood of entering into crime, being unemployed, and being on welfare (Levin and Rouse, 2012). It also increases the likelihood of going on to higher education, which is associated with better health—a private benefit, but also possibly a social benefit in reducing society's overall health care costs. Increased academic performance may also be associated with more informed political decision making, greater tolerance for diversity, and other factors that seem to contribute to political stability in democratic societies.

There is some evidence that for certain groups—perhaps for a subset of lower-income students—there may be a positive impact on student performance of subsidizing private schools. However, the effect is generally small, varies greatly across localities, and seems to depend on the type and level of schooling, so we would not expect a major impact on social benefits of any such increases in math and reading performance. For example, a rigorous study of (oversubscribed) charter middle schools in Massachusetts that accept students by lottery shows that, on average, students who got into these charters have only somewhat higher achievement than students who applied to the charters but attended public schools. However, the results differ considerably by locality. Whatever positive results for charters came from urban charters. Students who attended urban, “no excuses” (highly discipline-oriented) middle and high school charters made positive achievement gains and had higher educational attainment compared to their counterparts in urban public schools. Such students were mostly black, from low-

income families, and with very poorly performing public schools as the likely alternative, suggesting that in particular locations for particular groups, subsidizing particular kinds of private schools can have significant impact on students (Angrist et al, 2013; Angrist et al, 2016; Chabrier et al, 2016).

Even if the increase in academic performance resulting from this educational strategy is small, the cost of subsidizing private education may be lower than paying for an equal number of students to attend public schools (for Chile, see McEwan and Carnoy, 2000). Thus, subsidizing private schooling may save the public money in achieving the same results as sending all students to higher cost public schools. Advocates of private schooling put a lot of emphasis on the fact that voucher amounts and the amounts of funding allocated to charter schools have been smaller than the equivalent spending per student in public schools.

However, this argument should not be very appealing to a country with mainly low-performing students. A policy that reduces spending on schooling but produces no improvements in how much and what students are learning is no substitute for increasing productivity in the educational system even if it costs more. This is the lesson Chile learned, as it relied heavily on the expansion of the voucher program in the 1980s and early 1990s to improve students' educational performance. This improvement did not happen. In the 1990s, to the contrary, the government greatly increased spending on education, first by significantly raising teachers' salaries, then by implementing a universal full-day school policy, then by significantly increasing the amount spent on low-income students. Families privately added more school funding as an increasing number of private voucher schools began charging fees. In addition, both public and private universities in Chile charge substantial tuition. In total, therefore, Chileans spend much more per student than Brazil and Argentina on all levels of schooling, especially on basic education (1st to 8th grades). Whether this higher spending is responsible for higher Chilean PISA scores compared to Brazil's and Argentina's is disputable, but the fact is that students' PISA scores have been consistently higher in Chile than in Brazil and Argentina, and PISA scores are rising in Chile somewhat more rapidly than in Brazil and much more rapidly than in Argentina.

The cost-effectiveness argument may also be fundamentally flawed for several reasons. Voucher programs and most charter schools can run at a lower cost for several reasons that would not be sustainable were publicly funded private education to replace much of public education. First, private voucher and charter schools have several ways to avoid higher cost students not available to public schools. Most important among these is that even if required to admit students by lottery, voucher and charter schools can later ease out students that are not performing well or are not sufficiently conforming to the school's mission (Benveniste et al, 2002). This is an option that is much less available to public schools. And, again, even if required to admit students by lottery, charter schools can dissuade parents with special needs students or students with language needs from applying for the lottery by claiming that they are not "equipped" to handle such students, thereby reducing costs to the school by not having to admit a "normal" number of special needs students.

Second, many of the more effective charter schools—KIPP and the other better known “no excuses” schools are highly cited examples—receive considerable funding from private foundations and are considerably more expensive per pupil than comparable student public schools (Miron et al, 2011). KIPP schools, for example, may therefore be less cost-effective than public schools serving low-income students. Similarly, some teachers and staff at religious private schools are subsidized by religious organizations, so those schools may also be more costly than they seem.

Third, many voucher (and charter) schools “free ride” the bigger teacher labor market in the sense that they generally hire much younger (mainly untrained) teachers (and work them longer hours and a longer school year), without promise or likelihood of permanent employment in privately-run schools. However, these young teachers can count on a large public system to hire them into more permanent, generally higher-paying teaching jobs, with pensions), once experienced in charter and voucher schools, if they choose to make teaching a career. This possibility of stable (tenured) employment and future rewards is an important condition for their willingness to work in charter and voucher schools. The “free rider” aspect of lower teacher costs (younger, inexperienced, and working longer hours) in private schools, whether voucher or charter, means that the supply of young people willing to teach in private voucher and charter schools is, in this sense, made possible by the salary structure and tenure system in public education.. Thus, for private schools to have lower costs, nations need to maintain a largely public system that pays teachers adequate salaries and provides for a teacher promotion ladder and job security.⁴

In addition to the less than convincing public benefits of the private school subsidization strategy, funding private schools may produce some important social costs (negative benefits). Most notably, the direct costs of competition for students between public and private schools represent a deadweight loss to taxpayers. In addition, implementing a voucher plan is not costless. Levin and Driver (1997) estimated that the costs associated with vouchers, such as accommodating additional students, record keeping, student transportation, information to parents, and dispute adjudication—could raise public educational costs substantially. Moreover, competition between private and public schools may reduce public (social) benefits if private providers increase school racial and social segregation (Bifulco and Ladd, 2007). There is considerable evidence that the Chilean voucher plan contributed to already high social

⁴ Advocates of teaching as a “temporary” profession, such as Teach for America/Teach for All’s Wendy Kopp, argue that the real price of teachers should be even lower than it is, because teaching, like carpentry, but unlike medicine, the law, or professional soccer, is something that is largely innate and the rest can be learned in eight weeks of training and on the job. Although some studies show that Teach for America’s teachers fare about as well as young trained teachers (Boyd et al. 2009), more generally, teaching experience has a positive impact on student achievement, and this effect continues to increase well beyond just the first five years (Ladd and Sorensen 2017).

class segregation in Chilean schools, and that this was exacerbated by allowing parents to pay school fees in addition to the voucher, beginning in 1994 (Valenzuela et al, 2014).⁵

Further, if subsidized private education produces similar test scores (school quality) but does so by shifting benefits from (poorer) school workers to (richer) school operators, that could be seen as reducing public benefits, if society values more equal income distribution as a public benefit. The expansion of subsidized private schooling may also have the effect of reducing teachers' salaries or keeping them lower than they might otherwise be. In the longer run, this could make teaching a less attractive profession and reduce the overall trajectory of student academic performance.

Can Regulating Publicly-Subsidized Private Schools Increase Public Benefits?

Another discussion worth having is whether the public would have similar control over the *kinds* of public benefits produced by subsidized private schools and public schools. One of the great problems in the consumption of education is that families have difficulty gauging the quality (or private value) of the education product they "buy" for their children.

This problem is even greater in terms of voters gauging the public value of education, and they may not care about that public value. When schools are run by the public sector, they are accountable directly to public officials. The main actors in the discussion on what schools should produce (more music and art, more math and English, more history and civics, etc.), whether schools should be more or less integrated, etc., is conducted in the public arena. The main actors are parents, teachers, public officials (including elected school board members), as well as business leaders.

When schools are publicly subsidized but privately-run, the main actors are parents, private operators, business leaders, foundations, and public officials. Education workers are specifically pushed out of the picture. Decisions are made largely in privately-run enterprises subject to market conditions, which means that public benefits other than raising academic achievement are less likely to enter the discussion.

One way around this problem is to regulate publicly funded private schools. Private schools in the U.S. that receive direct public funding are regulated by the public sector of states in varying ways, depending on the state, and on whether the public funding comes in the form of a voucher or a charter. Regulation focuses mainly on

⁵ It is also possible that school segregation may increase private benefits for some groups (higher income and white families), but much smaller private benefits (from choice and possibly lower test score gains) for lower-income and minority families. It is also possible that if the result of greater school social segregation contributes to greater social and political polarization, this may have high public costs in terms of less functional government.

financial audits, but includes, in most states, a requirement that publicly subsidized private schools take state tests. In many states, they also must admit all students who apply,⁶ and where there is excess demand for places in a school, they are required to conduct an entrance lottery. In some states, publicly subsidized private schools are also required to provide services to English learner (ELL) and special needs students.

Regulation may serve to increase public relative to private goods produced by such schools, but it certainly conflicts with the underlying idea that subsidizing private schools is part of a strategy to *deregulate* schools to encourage innovation, greater parental choice options, and lower cost. Thus, as in many realms of the economy and society, including the provision of health care, protecting the environment, or in reducing economic and social inequalities inherent in unregulated markets, the public demands regulation to protect the public against the excesses of private provision of partly public goods.

Thus, the degree of regulation of private providers, such as schools, receiving public subsidies to deliver educational outcomes becomes a source of political contestation. Private schools argue that such regulation limits their ability to innovate and to do things “differently” to provide the kind of education desired by their clients—in many cases, this includes religious education. However, given that one of the main arguments for public subsidies is that private schools provide higher student achievement, greater likelihood of completing secondary school, and greater likelihood of entry and completion of university, parents and the public should certainly want to know that these goals are being met. That is why in Chile, private voucher school students have always been tested along with public school students, and in the United States, charter school students in every state are required to take the same state tests as public school students. Similarly, in European countries that subsidize private schools either directly or through vouchers (Sweden), students in those schools take the same state tests (and the school results published) as students in public schools. In addition, subsidized private schools in Chile, the US, and Europe are inspected and financially audited by government officials.

Is Public Funding for Private Education a Distraction?

Even if the advocates of subsidizing private schooling could show some significant increases in public benefits from that educational improvement strategy, they would ultimately have to argue that other strategies that emphasize improving public education are not even more successful. Yet, the achievement gains in many U.S. states and cities implementing public school improvement strategies are much larger than any effects claimed by private schooling advocates. Similarly, in Chile, the test score gains from public interventions such as providing higher value vouchers to students from low-income families are also much higher than gains claimed for direct improvements in test scores from attending private schools or competition effects on public school students (Carrasco, 2014; Vega, 2018).

⁶ As noted, however, private schools subject to lottery can dissuade parents with special needs and ELL students from applying.

As discussed above, the main arguments for subsidizing private education have boiled down to Friedman’s original case for vouchers; that is, the private benefit provided by greater parental choice and the public benefit of providing equally good (same student test scores) mass education at somewhat lower cost. However, neither of these arguments focuses on the benefits of *improved* education. Once we address the reality that, by and large, market approaches to educational provision have not been successful in significantly raising educational productivity, we face a different choice issue. Is focus on government strategies that work to substantially increase educational productivity—even though requiring significant investment in schools—a better *public choice* than promoting subsidies to private education?

Further, if a private school subsidization policy is pursued, and optimizing public benefits from that strategy requires considerable private school regulation, the meaning of that strategy also becomes blurred. A high degree of government regulation needed to prevent financial abuses and low quality in subsidized private education makes the underlying argument for those subsidies much less compelling. Yet, the experience of subsidized private education in many countries is that, indeed, government regulation is an important factor in assuring that parents and students are protected against false claims and poor results, just as they should be in public education.

If such other strategies are much more successful in improving education than unregulated or lightly regulated private school subsidization strategies, choosing to pursue vouchers and charters could be quite costly. It could divert policy makers and public funding from programs that can, in fact, improve student learning. There are many policy changes that are likely to have much higher payoffs than public subsidies for private education. Investing more in excellent teacher pre-service training (Boyd et al, 2009); in early childhood education (Heckman and Masterov, 2007); in after-school and summer programs (Alexander et al, 2007); in improved student health and nutrition programs in and out of schools; and in implementing high standards in math, reading, and science curricula (Schmidt et al, 2001), all appear to yield higher returns than the very small, if any, gains that have been estimated for voucher and charter students. Some U.S. states such as Massachusetts, Minnesota, North Carolina, and Texas followed through on high yield reforms in the 1980s and 1990s, and public school students reaped their benefits (Carnoy, Garcia, and Khavenson 2015). Students in Massachusetts score as high as students in Finland on the Programme for International Student Assessment (PISA) mathematics test and higher on the PISA reading test.

If increasing private choice for low-income families plus public benefits is the main objective, other strategies that increase choice may also be associated with greater public benefits than subsidizing private schools—a negative income tax and housing vouchers, for example. A negative income tax allows low-income parents to spend added income in a variety of ways—indeed, a negative income tax could be treated as a conditional cash transfer, as in *Bolsa Familia*, where the added income comes with “conditions”—parents could be required to use it for improved housing, for schooling, for children’s health care, for pre-school, etc. Housing vouchers for use in higher income

neighborhoods would allow parents easier access for their children to attend schools with high income peers and to live in neighborhoods that may be safer and with better social services more generally.

Ultimately, an effective strategy to improve low-income parents' choices for their children's education is to undertake strategies that greatly improve the public schools that these children attend, since even with general voucher plans, such as in Chile, where a high percentage of lower-income families send their children to subsidized private schools, those schools are no better academically than the public schools they compete with. In effect, parents are given a choice, but the choice is between equally poorly performing schools.

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