



# Do charter schools crowd out private school enrollment? Evidence from Michigan<sup>☆</sup>



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## ARTICLE INFO

### Article history:

Received 19 August 2012

Revised 28 October 2015

Available online 6 November 2015

### Keywords:

Charters

Private schools

Instrumental variables

## ABSTRACT

Charter schools have been one of the most important dimensions of recent school reform measures in the United States. Though there have been numerous studies on the effects of charter schools, these have mostly been confined to analyzing their effects on student achievement, student demographic composition, parental satisfaction, and the competitive effects on traditional public schools. This study departs from the existing literature by investigating the effect of charter schools on enrollment in private schools. To investigate this issue empirically, we focus on the state of Michigan where there was a significant spread of charter schools in the nineties. Using data on private school enrollment from biennial NCES private school surveys, and using a fixed effects as well as an instrumental variables strategy that exploits exogenous variation from Michigan charter law, we investigate the effect of charter school penetration on private school enrollment. We do not find any causal evidence that charter schools led to a decline in enrollment in the private schools. Further, we do not find evidence that enrollments in Catholic or other religious schools were affected differently from those in non-religious private schools. Our results are robust to a variety of sensitivity checks.

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## 1. Introduction

Since the publication of *A Nation at Risk* in 1983, efforts to improve public school quality have been at the forefront of national and state policy debates. Concerned over the academic achievement of U.S. students, particularly in comparison to students in other developed as well as developing countries, policy makers have proposed and implemented several reform measures. One of the most important dimensions of these school reform measures has been school choice, and charter schools in particular. Since the first charter school opened in 1991–92 in Minnesota, there has been a rapid spread of

charter schools throughout the U.S. and most states now have charter schools. As of 2013, there were more than 6000 charter schools enrolling over two million students spread across the 40 U.S. states, the District of Columbia, and Puerto Rico (National Alliance for Public Charter Schools).

This study investigates the effect of charter schools on private school enrollment in the context of Michigan. While there is a rich literature that studies the effect of charter schools, these have mostly been confined to analyzing their effects on student achievement, student demographic composition, parental satisfaction, and the competitive effects on traditional public schools. Surprisingly, the impacts of charter schools on private school enrollment have been largely overlooked. While there is a general impression that charter schools have negatively impacted private school enrollment, there is no convincing evidence either to this effect or to its contrary. However, understanding the effect of charter schools on private school enrollment is of paramount importance from various perspectives. First, private schools are an integral part of our K-12 education system, and hence it is important to understand whether and how charter schools affect private school enrollment. Moreover, any policy that affects enrollment in these schools has the potential to have significant consequences on school quality and educational outcomes of students (both public and private). Second, an important factor is the potential impact on per pupil spending in public schools. If it is indeed the case

<sup>☆</sup> We are grateful to Lisa Barrow, Dominic Brewer, Julie Cullen, Wilbert van der Klaauw, Jacob Vigdor, coeditor J. Vernon Henderson, two anonymous referees, and seminar participants at Columbia University, New York University, American Economic Association meetings, Econometric Society Meetings, Society for Labor Economists Annual Meeting, American Education Finance Association Meetings, American Education Research Association Meetings and Association for Public Policy Analysis and Management meetings for helpful suggestions and comments. We would also like to thank Stephen Broughman at the National Center for Education Statistics for help with the private school survey data. The views expressed in this paper are those of the authors and do not necessarily reflect the position of the Federal Reserve Bank of New York or the Federal Reserve System. All errors are our own.

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that a significant number of private school students are now transferring to charter schools (which are publicly financed) then this may reduce the amount of per pupil spending in public schools unless total school spending increases at a corresponding rate. On the other hand, if there are more children in the public sector, this increases the number of people with stakes in the quality and performance of public schools. This in turn may lead to demands for more resources in the public sector. Thus, while the exact direction of the net effect on funding is not clear, charter school impacts on private school enrollment can surely have ramifications on per pupil funding in public schools.<sup>1</sup>

Also of importance is whether charter schools affect enrollment in different types of private schools differently. As President Bush said in his 2008 State of the Union address, faith-based schools are disappearing at an “alarming” rate in many of America’s inner cities, and there is a general perception (Cech, 2008) that charter schools are one of the major drivers of the decline in Catholic school enrollment. In spite of these perceptions, there is virtually no literature that studies the impact of charter schools on private school enrollment, either overall or separately for religious schools (including Catholic schools) and non-religious schools. This paper begins to fill this gap and takes an important step forward in this direction. In our study, in addition to investigating the impact of charter school entry on overall private school enrollment, we disaggregate the universe of private schools into Catholic schools, non-Catholic religious schools, and secular schools, analyzing whether the effects varied by the religious nature of the schools.

This paper can also speak to one of the most hotly debated questions relating to charter schools, the question of relative efficacy of charter and public schools. The existing literature typically addresses this question by comparing the achievement of public and charter school students, after controlling for their observable and unobservable characteristics. However, the effect of charter schools on private enrollment, as analyzed in this paper, can also inform this question, from the point of view of parents’ perceptions (or parental valuation) of these two types of schools.

This study is the first to point out that private school enrollment patterns in the presence of charter schools contain important information relating to the relative quality of charter and public schools. The intuition is that any movement from private schools to charter schools will depend not only on the relative qualities of these two types of schools, but will also depend in an important way on the quality of the neighboring traditional public school. This is because if the new charter school is regarded as an improved alternative in comparison to the traditional public school, then some private school households (the ones marginal or close to marginal between public and private schools) will now take advantage of this and switch from private to charter schools. Note that a transfer of students from private schools to charter schools does not necessarily imply that these parents value charter schools more than private schools (as private schools are costly). On the other hand, such a transfer implies that parents prefer charter schools to the traditional public schools, since both are free. Thus the effect of charter schools on private school enrollment gives us valuable information relating to relative attractiveness of charter and public schools, as perceived by private school parents.

Note that moves of public school students to charter schools also imply that their parents value charters more than the public schools. However, there might be differences in the responsiveness of public and private families to school quality in their school choice decision. For example, Hanushek et al. (2007) found that in Texas, the

parental decision to exit a charter school is significantly related to charter school quality and that the magnitude of this relationship is substantially larger than the relationship between the probability of exit and quality in the traditional public school sector. Since parents of children currently in private schools have already exercised the choice option once, they may be more sensitive to school quality, and arguably more motivated.

It should however be noted that such moves (moves of private school students to charter schools or moves of public school students to charters for that matter) do not necessarily imply that charter schools are better than public schools in terms of academic achievement. It merely implies that parents ‘value’ charter schools more than the traditional public schools, and these may be for reasons other than academic achievement. For example, some parents may have a preference for a particular curriculum (e.g., fine arts theme or Afrocentric theme), or the fact that charter schools might be targeted to particular groups like special education students or at-risk students, or the fact that they may be somewhat different in nature from the traditional public or private schools (like being technical schools), etc. Of course, it is also possible that being new schools, charters initially attract some families who are shopping around for better school quality.

The empirical part of this paper investigates the effect of charter penetration on private school enrollment. We focus on the state of Michigan where there was a significant spread of charter schools in the 1990s. Data used include biennial data from private school surveys conducted by the U.S. Department of Education and charter school data obtained from the Michigan Department of Education. We use a fixed effects as well as an instrumental variables strategy that exploits exogenous variation from the Michigan charter law, following Bettinger (2005). We find no causal evidence that charter schools in Michigan impacted private school enrollment. Further, we do not find evidence that enrollments in Catholic or other religious schools were affected differently from those in non-religious private schools. Our results are robust to a series of sensitivity and falsification tests.

Our study is related to the burgeoning literature on various effects of charter schools. However, most of this literature focuses on either the effect on students enrolled in such schools (Abdulkadiroglu et al., 2009; 2011; Angrist et al., 2011; 2010; 2012; 2013; Bettinger, 2005; Bifulco and Ladd, 2006; Booker et al., 2007; Hoxby and Murarka, 2007; Hoxby and Rockoff, 2004; Imberman, 2011a; Sass, 2006), or the competition effect on surrounding traditional public schools (Bettinger, 2005; Booker et al., 2008; Hoxby, 2003a; 2003b; Imberman, 2011; Sass, 2006), or the effects on sorting of students across public and charter schools, particularly based on racial composition (Dee and Fu, 2004). In contrast, our study analyzes the enrollment effects of charter schools on private schools.

This study is most closely related to Toma et al. (2006)—the only other paper that looks at enrollment consequences of charter schools. It also focuses on Michigan, and finds that charter schools are attracting a significant number of students from the private sector. Considering enrollments at the county level, they find that private schools lose 0.31 student for every student gained by charter schools.

This study differs from Toma et al. (2006) in several fundamental ways. First, Toma et al. (2006) does not account for the fact that the location of charter schools might be endogenous to (unobserved components of) private and public school quality in the neighborhood, so that simple OLS or even fixed effect regressions can yield biased estimates. This paper, on the other hand, pursues an instrumental variables strategy by exploiting exogenous variation in Michigan’s charter school law. Second, unlike this paper, Toma et al. (2006) does not control for pre-program differences in enrollment trends across individual private schools, nor does it allow the impact on private school enrollment to trend over time. Third, Toma et al. looks at the effect of county-level charter enrollment on county-level private

<sup>1</sup> Preston (1984) argues that one of the main reasons that poverty rates among the elderly fell significantly from 1950 to 1980 despite the increase in their numbers is the fact that the increase in the number and percentage of elderly people led to a redistribution of resources towards them.

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