

School vouchers in practice: competition will not hurt you

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Abstract

Since the introduction of school vouchers in 1992, independent and public schools in Sweden operate on equal terms. We analyze the effects of competition on the public schools using data on the results of 28,000 ninth graders. Because the decision on which school to attend is a choice variable, sample selection models are used. To account for the potential endogeneity of the share of students attending independent schools, we use instrumental variable estimation. We also estimate panel data models on 288 Swedish municipalities. Our findings support the hypothesis that school results in public schools improve due to competition.

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1. Introduction

The role of independent schools has been an important focus in the debate on the quality of schooling. A central issue is whether the use of public funds to finance privately run schools, through voucher schemes or charter schools, may enhance education. Several states and counties in the US have implemented limited experiments with such systems. In Europe, several countries have a long tradition of independent schools, that while subject to a varying degree of government regulation, also receive public financing to varying

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degrees. However, to our knowledge, no country has implemented a more complete reform of school financing than Sweden did in the 1990s. Two parts of the reform are of particular interest: a voucher system which replaced the earlier centralized system of financing; and a parental choice reform.

The Swedish experience is of interest for at least three reasons. First, the reforms have been radical. Under the Swedish system, municipal and independent schools receive public financing on close to equal terms. Provided that they fulfill certain basic requirements, all kinds of schools are eligible, including religious schools and schools run by for-profit corporations. In this respect, Sweden differs from for example Denmark where private schools have received public funding for a long time, but where only parent-controlled, non-profit schools receive such funding. Further, the Swedish system applies to all children. This sets the reform apart from the so-called Milwaukee experiment (see, e.g., Rouse, 1998; Greene et al., 1999), which only provides vouchers to low-income groups. There are really only two serious limitations to the operation of independent schools. In order to receive public funds, they must pledge not to charge an additional tuition fee from the students. Obviously, this rules out competition on price. Further, the freedom in setting the rules of admission is limited: in particular, independent schools cannot refuse to accept low ability students.

Second, the country has experienced a rapid growth in the number of independent schools due to these reforms. The impact of the reform also differs between different municipalities¹ in Sweden. Enrollment in independent schools, at the compulsory school level, ranges between 0% and almost 20%. As Newmark (1995) points out in his criticism of Couch et al. (1993), studies of the effects of competition on public schools are in many cases unlikely to find any significant effects simply due to low variability in the data. He also questions the likelihood of competition from independent schools having any marked effect, unless the enrollment in independent schools varies over time. The high variability of private school enrollment in Sweden over time and space implies that these problems are somewhat mitigated.

Finally, unlike many other countries, most of the independent schools do not aim at any special group of students, such as those from a certain religious group. Rather, most of them are non-denominational and compete with public schools for the same group of students; something which is likely to make any effect of competition more noticeable. Further, the socioeconomic composition of students attending independent schools is not radically different from those attending public schools, thereby making inference easier.

Competition between schools raises several questions. Among the important issues are how public accountability may be ensured when public money is allocated to private institutions, and issues of equity and segregation. Of obvious interest is if the achievements of students in independent schools differ from those of students in publicly run schools. This has been an important research issue since at least the beginning of the 1980s, when Coleman et al. (1982) found evidence that private schooling was more effective. More recently, the so-called Milwaukee experiment, in which school vouchers are provided to some low-income students, has received considerable attention. Rouse

¹ In Sweden, schooling is primarily the responsibility of the municipalities, the lowest tier of government.

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