CHAPTER 9

WORKFORCE DEVELOPMENT REQUIRES EDUCATIONAL REFORM

by L. Brooke Conaway
CHAPTER 5: SPECIFIC TAX REFORMS

over 7.8 times higher than the most industry-friendly state, Delaware. (Delaware is listed in million ($12.5 million in machinery and equipment, $12.5 million in inventories, and $2.5 million.

Such a significant reduction in taxes on industrial property would obviously lead to a reduction in tax revenues on industrial property, at least initially. However, the overall impact might be sufficient to attract more industry. Working to reduce the Georgia's rate is effectively 1.52 percent and North Carolina's is just under 1 percent, a rate that might be sufficient to attract more industry. Working to reduce the one of the lowest per capita incomes and economic growth rates in the country.

Although it is probably not critical that South Carolina set its tax rate to the lowest in the nation, it should be no surprise that it has the highest tax in the country on industrial property, it is expected to have one of the lowest tax rates.

Importantly, South Carolina's effective tax rate is almost 2.5 times greater than Georgia's tax, and almost 4 times greater than North Carolina's. This puts South Carolina at a serious disadvantage, in terms of its ability to attract and keep industry. Since South Carolina has the highest tax in the country on industrial property, it should be no surprise that it has one of the lowest per capita incomes and economic growth rates in the country.

Table 5.2. Net tax and effective tax rate: 2009

| State   | City   | Net Tax
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Virginia</td>
<td>49</td>
<td>$241,498</td>
</tr>
<tr>
<td>Kentucky</td>
<td>47</td>
<td>$327,100</td>
</tr>
<tr>
<td>Florida</td>
<td>24</td>
<td>$677,683</td>
</tr>
<tr>
<td>Georgia</td>
<td>20</td>
<td>$760,381</td>
</tr>
<tr>
<td>Tennessee</td>
<td>10</td>
<td>$1,033,544</td>
</tr>
</tbody>
</table>

* Taxes measured in the state's largest city only.

Table 5.3. Average tax rate for various incomes

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$150,000</td>
<td>6.70%</td>
</tr>
<tr>
<td>$100,000</td>
<td>5.00%</td>
</tr>
<tr>
<td>$50,000</td>
<td>2.50%</td>
</tr>
<tr>
<td>$20,000</td>
<td>1.50%</td>
</tr>
<tr>
<td>$5,000</td>
<td>0.50%</td>
</tr>
</tbody>
</table>

Figure 5.5 also shows what the average tax rates are for various incomes and taxes are calculated based on property valued at $25 million

Table 5.4. Current income tax and average tax rate:

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Current Tax</th>
<th>Average Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30,000</td>
<td>$1,695</td>
<td>5.66%</td>
</tr>
<tr>
<td>$20,000</td>
<td>$527</td>
<td>2.63%</td>
</tr>
<tr>
<td>$10,000</td>
<td>$290</td>
<td>1.42%</td>
</tr>
<tr>
<td>$5,000</td>
<td>$71</td>
<td>1.42%</td>
</tr>
<tr>
<td>$2,500</td>
<td>$12</td>
<td>0.48%</td>
</tr>
</tbody>
</table>

Many among the most important building blocks for future economic growth are workers with the necessary skills to successfully adapt. For instance, imagine if we had a workforce as a whole now attempt to remain in declining industries for the sake of keeping those particular jobs at the expense of economic growth, new jobs, and new skills.

Unfortunately, it seems that the current investments in educational system that is failing to prepare them to be adaptive in their future endeavors. South Carolina's education system do not appear to be paying off (Sobel and King 2008).

It is well known by economists that investment in human capital is one of the most effective ways to increase productivity and economic growth for the future. However, what progressivity exists in the state's income tax structure is due to the zero tax on the first $2,630 of income, and because of the graduated marginal tax rates. However, since the marginal tax rate is rising for all areas of population below the poverty level, it is more likely that investment state and federal budgets are spent on labor's best use. For instance, imagine if we were able to switch industries to keep up with the ever changing conditions.

Better education or training, business and labor are necessary skills to successfully adapt.

Many workers are being affected at lower income levels reducing the demand for labor and because of the graduated marginal tax rates. However, since the marginal tax rate is rising for all areas of population below the poverty level, it is more likely that investment state and federal budgets are spent on labor's best use. For instance, imagine if we were able to switch industries to keep up with the ever changing conditions.

For future economic growth, it is necessary that they be adequately prepared to face changing economic conditions. That is why current investments in educational system that is failing to prepare them to be adaptive in their future endeavors. South Carolina's education system do not appear to be paying off (Sobel and King 2008).
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WORKFORCE DEVELOPMENT REQUIRES EDUCATIONAL REFORM

L. Brooke Conaway

CURRENT ECONOMIC STATE AND EDUCATIONAL OUTPUT IN SOUTH CAROLINA

The current state of South Carolina’s economy seems bleak as it continues to rank in the bottom ten states in the nation in both measures of per capita income and per capita gross state product. It also remains in the top ten states with the highest unemployment rate and the largest portion of population below the poverty level.\(^1\) The unemployment rate in 2009 has almost doubled from that of 2008, which pushed South Carolina from having the fifth largest unemployment rate to having the fourth largest rate in the nation.\(^2\) While the unemployment rate is rising for all areas as the United States weathers the recent recession, it is more important than ever to make sure that shrinking state and federal budgets are spent efficiently to ensure economic growth for the future.

Among the most important building blocks for future economic growth is educational reform. An important part of South Carolina’s future lies in the hands of its students, and it is vital that they be adequately prepared to be diverse in the type of labor they can offer and be flexible as the needs of the economy change. It is well known by economists that investment in human capital is a major component of economic well-being, yet current investments in South Carolina’s education system do not appear to be paying off (Sobel and King 2008). Students seem to be unprepared for many types of labor, suggesting some defect in the educational system that is failing to prepare them to be adaptive in their future endeavors.

Many individuals in South Carolina are ill-prepared to face changing economic conditions and lack the necessary skills to successfully adapt. Rather than acquire additional education or training, business and labor are lobbying governments to keep failing industries that have become an inefficient use of both private and public resources afloat. Better educated workers are more likely to be able to switch industries to keep up with the ever changing demand for labor as efficiency dictates labor’s best use. For instance, imagine if we had kept the railroad industry as the main source of transportation and transit with the massive public funding that we are currently spending on the automotive industry? If the railroad workers had not been able to adjust when the industry began to decline, our economy would be much worse as a result. Unfortunately, it seems that South Carolina’s and the U.S. workforce as a whole now attempt to remain in declining industries for the sake of keeping those particular jobs at the expense of economic growth, new jobs, and new skills.

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In addition to propagating the inefficient use of the labor force, it seems that those without the resources to seek a better future are stuck in a cycle of poor educational investment. The current economic system in South Carolina unofficially dictates the types of students that are able to attend private schools because generally parents with higher incomes are the only ones able to afford private school tuition. This system tends to leave many less fortunate children behind in public schools to continue the cycle of receiving a lower quality education, which will assuredly lead to fewer skills and options for the future. This is certainly not to say that all public schools offer a low quality education or that public schools are filled with only the underprivileged. It is merely an observation that parents must pay if they want more choices for their children’s education and that those who are unable to pay may suffer the consequences of fewer educational options.

Figure 9.1: South Carolina and National Average ACT Scores over Time

![Graph showing South Carolina and National Average ACT Scores over Time](image1)

Figure 9.2: South Carolina Average SAT Scores over Time

![Graph showing South Carolina Average SAT Scores over Time](image2)
Seniors and juniors declining college entrance exam scores are perhaps demonstrative of workers in South Carolina being unprepared for the labor market changes that often occur with growth. Average SAT and ACT scores for public school students show that South Carolina is at the bottom of the pile when it comes to preparing students for college.\(^3\) As shown in Figures 9.1 and 9.2 on previous page, ACT scores have shown little improvement in past years. More recently math and verbal SAT scores have been falling since 2005.\(^4\) South Carolina’s SAT and ACT scores have been consistently in the bottom five worst state averages for at least the last fifteen years.\(^5\)

South Carolina students showed a slight improvement (less than half a point) in the ACT score since 2004, yet there has been a downturn as of this year. While, SAT scores are now almost back down to their levels at the beginning of the decade. The most recent ACT report also notes that only 58 percent of graduating students are ready for the course rigor of college English, 42 percent are ready for college reading, 35 percent are ready for college math and only 20 percent are ready for college science.\(^6\) Most shocking is that a mere 18 percent of South Carolina public schools managed to meet federal standards of adequate academic yearly progress, established by the No Child Left Behind Act, for the 2008 school year.\(^7\)

Examining both economic and educational output data, it seems as though South Carolina is generating relatively undesirable outcomes with its current education policies. Investment in education over the last several years has failed to generate favorable increases in educational output, which in turn has failed to help improve the state of the economy as a whole. In order to turn the current situation around, South Carolinians must look at what is being done right and what is being done wrong when it comes to state policy on education. The following sections will discuss South Carolina’s educational spending over the last several years, why the current educational policies are not working, and possible policy reforms that will breed better results. The last section of the chapter contains concluding remarks about the effects better educational investment will have on South Carolina’s economy.

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PUBLIC INVESTMENT IN EDUCATION FOR SOUTH CAROLINA

South Carolinians must examine how their students are being educated and where taxpayer money is being spent to understand why this lack of preparation for the labor force continues. Over the last several years, real spending per child in South Carolina has increased from $8336 in 2002 to $11,480 in 2008. The growth rate of spending per child has increased from a modest 0.8 percent per year from 2002 to 2004, to much larger growth rates of 6 percent and 7 percent in 2005 and 2006, respectively. In fact, spending has grown by almost 20 percent from 2006 to 2008.\(^8\)

Compared to the neighboring states of North Carolina and Georgia, these are large increases in spending over the last few years. North Carolina’s expenditures per student have been consistently lower compared to South Carolina’s spending per student, and Georgia’s has been only slightly higher with an ever shrinking gap. In 2006 North Carolina spent less per child than South Carolina did in 2002, yet students were producing higher test scores. In addition, South Carolina saw declining SAT and ACT scores around the same time these heavy spending increases occurred (shown in Figures 9.1 and 9.2).\(^9\)

The composition of educational spending in each state is divided into operating, total capital and non K-12 categories of expenditures. Operating expenditures include money spent on instruction and pupil support. Over the last 10 years, both Georgia and North Carolina spent at least 3-7 percent more on this type of spending than South Carolina. Within the category of instruction and pupil support, both states also spent 3-4 percent more directly on the classroom instruction.\(^10\) Previous research has shown that it is the quality of spending, not the quantity, that generates better educational output. Research by Hanushek (2005a) reported that more spending does not translate into better educational output, but improving the quality of spending does increase educational output. Education funds should be allocated to those inputs that generate the most output per dollar, and the data suggests that North Carolina and Georgia have figured out what those inputs are, while South Carolina is being left behind.

Has any good come from the additional spending in terms of educational output or in building human capital in South Carolina’s public school system? As noted above, Figures 9.1 and 9.2 shows that ACT and SAT scores have declined since spending has increased. How about the performance of students in lower grade levels for students who are not on the brink of graduation? Using reading and math proficiency exams over grades 1-12 to measure educational output, the data suggests the research is true. Not a single grade in South Carolina schools has shown consistent improvement from 2003-2007, and most have had either continually smaller increases in improvement or decreases in improvement during this time frame.\(^11\)

Compared to Georgia and North Carolina, South Carolina’s reading and math scores are 30-60 percent lower for the percentage of students in each grade who are proficient. So, it seems that North Carolina and Georgia are spending less and getting more, while it is the

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\(^9\) Ibid

\(^10\) Ibid

\(^11\) Ibid
In other way around for South Carolina. These comparisons show why educational productivity per dollar spent is so important, especially in the face of shrinking state budgets. They also show that it is possible to spend fewer tax dollars on education and obtain more from educational investments.

**INCENTIVE PROBLEMS IN TRADITIONAL PUBLIC SCHOOLS**

How did all this additional spending generate such poor educational rankings in South Carolina? In order to answer this question of how South Carolina is spending more and achieving less it is imperative to understand the incentive problems traditional public schools face, especially with little geographic competition. If the incentive problems are not addressed, South Carolinians will continue to see more public funds spent with little educational improvement. Of course public schools have in mind the goal of educational quality for their students, but they are also interested in budget maximization.

Public schools that do not use the budget allotted to them typically lose some funding; therefore, it may be in a public school’s best interest to find ways to spend all of their budget. This incentive problem is one of many that helps discourage quality spending on education. Rather than choosing to spend money on inputs that generate better educational output from students, the budget may be spent on materials for those who lobby the most for additional funds. For example, a technology-earmarked budget might be spent on new technology that provides little marginal benefit over the old technology.

As an anecdotal example of this type of spending, for many years our family-owned computer business sold computers to the local public schools in return for budgetary funds earmarked for technology spending. New computers were purchased every year that were only marginally better than the computers purchased the previous school year; however, if these funds were not spent they would not be re-allocated the next school year. Old computers were cycled down as protocol allowed to other government projects with smaller budgets such as after-school and in-school suspension programs; however, many times these year-old computers were hauled away to older, little-used government buildings and were sold as government surplus by the pallet for next to nothing.

Even though these year-old computers were equally as functional as the newly purchased computers for school labs, the budget was exhausted simply to retain the same or better budgetary allocations for the next fiscal year. Is it true that tax dollars spent in such a way really improve the quality of education received by public school students? Since we see other states, such as North Carolina, spending less money on education and producing better output, one can argue that North Carolina is spending its taxpayers’ money more efficiently to increase the quality of public school education.

Another incentive problem that could explain these poor outcomes is the ‘principal-agent problem.’ The principal-agent problem is merely a misalignment of incentives between the principal (i.e. parent of a public school child) and the agents acting on the principal’s behalf (i.e. teachers and administrators in the public school system). The parents wish to have their children receive the best education possible, yet there is little that can be done to

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12 Note: Georgia’s spending is higher, but has declined over the years nearly to South Carolina’s level. North Carolina’s has shown small increases in spending, yet has been consistently lower than South Carolina. Information from “Spending, Revenue and Taxes,” School Data Direct tables for Georgia, North Carolina and South Carolina, Available at: [http://www.schooldatadirect.org/](http://www.schooldatadirect.org/).
ensure the agent has the same alignment of incentives to result in those same objectives. This problem is likely to be worse the fewer school choices available to parents and students. This does not mean that public school administrators and teachers do not care about the well being of the children with whom they are entrusted to educate.

Quite the contrary, many teachers and public school officials go into the profession because they want to help provide a nurturing and educational environment for students. Why then might the educational system remain in its current state and generate misaligned incentives between parents and schools? The answer may lie, in part, in the final destination of the tax dollars spent per pupil. According to the National Center for Educational Statistics (NCES), only 49 cents of every dollar spent goes to actual instruction expenditures. The rest seems to go to fund the bureaucracy that keeps this educational system in place.\textsuperscript{13}

School budgets are determined by district administrators and are typically earmarked so that when the money gets to the school how it will be spent has already been pre-determined. This type of budgeting prevents each school from deciding where the money would best be spent and forces those actually working with students to resort to other measures to try and increase quality. Many times teachers spend their own money to make sure students are given a better education. One recent nationwide survey showed that nearly half of the teachers that responded spent $500 or more per year out-of-pocket, and some as much as $3500 per year.\textsuperscript{14}

Because the public education system is very convoluted, parents are likely to be unsure of who to hold responsible for declining public educational quality and what to do to change it. Parents do not typically interact with district level and higher-up school authorities, but rather see teachers and school staff on a regular basis. It may be easy for the parent to blame the teacher rather than the administrator simply because of proximity. The administrators working outside of the school itself are far removed from the day-to-day interaction with students, yet it is they who decide where most of the public funds are spent. Teachers might find it difficult to be held responsible for the results of inefficiencies in spending when they have very little discretion in how these funds are spent.

It is also the administrators who tend to receive the higher salaries rather than the teachers and staff who offer a more direct impact on student education. The larger the administrator’s salary, the greater is the incentive to ensure their job security. Any blame for poor school performance can easily be pushed by the administrator to the school itself in order to avoid losing public favor and employment. So, the teachers who are in need of the greatest incentive to generate the highest educational quality receive the most blame and lower pay. As discussed earlier, we can see that there is a big difference between South Carolina and its neighboring states, Georgia and North Carolina, when it comes to the composition of expenditures. South Carolina has consistently spent less on instruction and pupil support and has seen a decline in educational output per dollar spent.\textsuperscript{15} For instance, NCES graduation rates in 2004 for South Carolina were less than either Georgia or North Carolina, see Figure 9.3.

\textsuperscript{13} NCES, "State Education Data Profiles, Available at : http://nces.ed.gov/programs/stateprofiles/sresult.asp?mode=full&displaycat=2&s1=45.


\textsuperscript{15} Georgia, North Carolina and South Carolina spending distribution information found under Spending, Revenue and Taxes, School Data Direct tables, Available at: http://www.schooldatadirect.org/.
Figure 9.3 Expenditures per Student and Graduation Rates

<table>
<thead>
<tr>
<th>State</th>
<th>Expenditure per Student</th>
<th>Number of districts</th>
<th>Enrollment</th>
<th>Graduation Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia</td>
<td>$7,423</td>
<td>180</td>
<td>1,522,424</td>
<td>61.2</td>
</tr>
<tr>
<td>North Carolina</td>
<td>$6,960</td>
<td>117</td>
<td>1,325,707</td>
<td>71.4</td>
</tr>
<tr>
<td>South Carolina</td>
<td>$7,137</td>
<td>85</td>
<td>696,376</td>
<td>60.6</td>
</tr>
</tbody>
</table>


One can imagine that being blamed for spending inefficiencies would dishearten even the most genuinely motivated teachers and provide a disincentive to improve educational quality. Personal goodwill and out-of-pocket spending must be relied upon in many situations in order for public school teachers to go above and beyond their job duties and provide a higher quality education. Some teachers are quite content to provide this goodwill and extra work because charitable acts provide them pleasure. Unfortunately, many individuals are not prone to be this benevolent without the proper incentives, and many teachers are not able to afford these additional expenses to help their students receive a better education.

School principals are the only link between administrators and teachers, and school boards have discretion in the direction of funds spending; therefore, it is likely very difficult for school principals to act as managers and create successful incentive programs to generate better educational quality and to make sure funds are spent where that particular school needs them the most. Relying on the goodwill of others and on a far-removed administration to efficiently earmark school budgets is not a safe bet when it comes to educating children in South Carolina. This issue will be discussed in more detail in Chapter 10.

**CURRENT SOUTH CAROLINA SCHOOL CHOICE PROGRAM**

What is South Carolina currently doing to help improve this bleak educational outlook? It is obvious that the South Carolina Department of Education realizes the importance of parental choice and competition among schools when it comes to education; however, the current program offers choices among only a few publically funded options. South Carolina parents currently have a choice among single-gender, Montessori, charter, middle-college and international-baccalaureate programs, as well as programs with special emphasis on the arts and environmental and outdoor education.\(^{16}\)

While there are benefits to offering such choices, it seems that the program has entirely missed the point of school choice. Rather than allow parents to dictate what type of school programs are offered the way a private industry would, it allows parents to choose from programs dictated by the public school system. The point of school choice is to allow schools to compete for students the way private firms compete for customers.

As the program stands, parents may choose to send their children to schools in different districts based on their preferences; however, if a school lacks enrollment because parents and students are not impressed with the educational product offered, it is unlikely to

shut down due to a lack of efficiency or customers. This program misses the point that the incentive to offer superior educational quality is most effective when the school must serve the desires of its customers or shut down.

These products were not dictated by market demand, but rather dictated by what school officials thought parents might want. For example, it may be that one district has many parents who prefer a Montessori Method of instruction and another district where most parents prefer special emphasis on environmental education. The current system guesses at what parents want in and across districts and does not provide a method to respond to changes in preferences over time. It is unlikely that school officials are able to know what types of educational programs parents might want or know when parental preferences change.

Previous educational reform has attempted to mimic the private incentive arrangement by offering bonuses for schools that get the highest test scores. Teacher bonuses awarded in this manner have created a system of ‘teaching to the test.’ This program gives teachers the incentive to make sure students do well on the exams, so they begin to teach students how to do well on these exams rather than teaching the students to apply the information they have learned to various situations. This method of instruction may be part of the problem causing South Carolina students, among others, to be ill-prepared for work in a variety of businesses.

Given South Carolina’s current situation, it is clear that the programs and types of spending meant to solve these problems are not effective. It is obvious that change is needed in both how tax money is spent and what kinds of incentive programs are used. Without spending more tax dollars on bureaucratic task forces to determine the most efficient way to spend education funds and what options to offer parents, how can we change the educational system in South Carolina so that its citizens receive higher educational output per dollars spent?

**POSSIBLE SOLUTIONS**

The answer is more competition. Currently educational output per dollar spent is too low compared to similar states and this output has declined over time. The change in school policy that would help increase educational output per dollar spent is to promote more competition and effectively set up incentive structures that will generate increased quality. There are various methods that could be utilized to promote competition.

Charter schools are one way to help spark competitive forces. Charter schools help promote competition by allowing the public school more autonomy and freedom from general public school regulations, as long as they continue to generate successful results from students. The charter for the school is renewable on average every 5 years. Compared to North Carolina and Georgia, South Carolina’s charter schools program is small. North Carolina and Georgia both have more charter schools than South Carolina. Georgia and North Carolina currently have 71 and 98 charter school programs, respectively. With each state having over 30,000 charter school students, whereas in South Carolina there are only 31

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schools and a little over 5,400 students. Promoting charter schools would provide parents with more options and provide schools with more autonomy in spending their budgets.

Vouchers and tax credits for education are another method of promoting competition. A voucher program would give funding directly to parents rather than schools and allow parents to choose which schools their children attend. Parents may choose public or private schools and have all or part of the tuition paid for through educational funding. Tax credits could come in a variety of forms. Some tax credit programs are tuition tax credit programs, where parents received a credit against their state (and sometimes local) taxes for tuition payments at eligible private schools. Another way the tax code can be employed to expand parental choice in South Carolina is through a scholarship tax credit program, where individuals can make donations to scholarship-granting organizations that provide scholarships to individuals attending non-public schools.

South Carolina and North Carolina currently do not have school voucher programs, but Georgia began its first voucher-like program in 2007 allowing children with special needs and disabilities to earn scholarships to private schools. Georgia also enacted an education scholarship tax credit in 2008 that allows parents and businesses to reduce their tax liability through donations to private school scholarship granting organizations. A great deal of competition would be generated if vouchers and tax credits were employed to give as many families real school choice.

If each child has a voucher or a tax-credit funded scholarship that pays the cost of tuition, parents will choose the school that provides the best education. Private schools, in an effort to make a profit, will try to out-perform each other in an attempt to attract these additional dollars. The dollars will go to the schools that provide the best education and administrators will have an incentive to continue to provide a high level of service in an attempt to generate operating revenue.

Inter-district choice is another way that may generate more competition in the provision of education. Inter-district choice involves loosening restrictions on which public school students may attend based on their home addresses. One county in Georgia has recently decided to crack down on the practice of parents faking an address in a county other than where they reside just to get into the schools in other counties or districts. Why should we limit parents to one or two choices when they may prefer a school in another district, despite the driving distance, because that school outperforms the school(s) in their own district? Liberalization of these policies would allow parents to send their children to whichever public school they choose, which would promote more competition for those students among schools in the area.

Liberalizing the regulation of homeschooling and the use of magnet schools are also other methods that could be useful in reaping some of the benefits of competition. Less regulation would allow parents more options, and magnet schools would provide options among specially-themed schools to give students a chance to study in a specific area of interest. As seen in Figure 9.4 Georgia and North Carolina currently have far more magnet

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21 David Casas and Tim Callahan (2009)
22 Vouchers could come in the form of scholarships for students or tax credits for parents.
23 For a provocative take on how public schools could be privatized, see Vedder (2000).
24 Andrew Castillo (2009).
schools than South Carolina. Any of these avenues could be taken advantage of to get South Carolina on the right track to getting more output per dollar in education.

Figure 9.4 Magnet Schools in South Carolina and Neighboring States

<table>
<thead>
<tr>
<th>State</th>
<th>Elementary School</th>
<th>Middle School</th>
<th>High School</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia</td>
<td>35</td>
<td>13</td>
<td>24</td>
</tr>
<tr>
<td>North Carolina</td>
<td>99</td>
<td>34</td>
<td>19</td>
</tr>
<tr>
<td>South Carolina</td>
<td>14</td>
<td>8</td>
<td>9</td>
</tr>
</tbody>
</table>


THE EFFECTS OF SCHOOL POLICY REFORM ON GROWTH AND DEVELOPMENT

What could changes in school policies mean for South Carolina’s economic future? Educational policy reform to increase the level of competition among schools could offer not only short-term, but also long-term benefits for South Carolina’s economy. For instance, Sobel and King (2008) showed that those counties in South Carolina with fewer schools to choose from have fewer self-employed individuals. The importance of having young, self-employed individuals lies in the statistic showing that small businesses provide the most significant amount of job creation; therefore, more small businesses and self-employment would greatly help alleviate the growing unemployment rate in South Carolina and generate economic growth.

Larson (2009) provides further analysis on this subject by examining the poorest counties in South Carolina and noting that there are no private schools in these counties available for parents to choose from if they are not satisfied with the public school system. His results showed that even without parents contributing any income towards the education of their children, the sheer availability of private schools and voucher or tax credit programs would increase the number of jobs substantially in these counties. The most conservative estimates from Larson’s study generate hundreds of new jobs through small businesses in these rural counties. Larson notes that not only will more school choice create more jobs and boost South Carolina’s economy, but the existence of private schools will also increase the quality of education and performance of students in public schools.

What Larson (2009) argues is that public school educational quality and student performance benefit from the existence of private schools in an effort to remain competitive. Thus, when faced with competition from private schools, public schools will take measures to increase educational quality and therefore student performance. This idea that public schools will improve as a result of facing competition from private schools has been looked at by many authors. There is a divide in the literature as to the effect private schools have on public school student performance. Authors, such as Hoxby (1994) Couch et al. (1993) and Dee (1998), find that public schools show immediate improvement as a result of the competitive pressures from private schools.

26 Small Business Administration, definitions of small businesses, Available at: [http://www.sba.gov/advo/research/dyn_st05.pdf](http://www.sba.gov/advo/research/dyn_st05.pdf).
Chapter 9: Workforce Development

Others, such as Sander (1999), Arum (1996), Bayer and McMillan (2005), and Simon and Lovrich (1996), have found that there is no effect on public schools possibly in part because private schools may gain the high ability students from public schools, but public schools take measures to counteract the decrease in mean student ability. Jepsen (2002) studied this divide in opinion with a comprehensive review and attributed the differences in results to the data set, empirical approach and how the degree of private school competition and public school achievement were measured.

One problem that has not been addressed by previous studies is the likelihood that public schools will take some time to improve when faced with additional competitive pressures from private schools. In a study by Conaway (2009), data from counties in California are used to show that public schools do begin to show improved student performance when there are private schools that start to gain more students; however, the increase in student performance does not show up until many years after the public schools begin to feel the pressure of competition. Even eventual improvement in public schools would be preferable and beneficial for the economy in the long run compared to the current situation.

Hanushek’s (2005b) research showed that improving teacher quality, student outcomes and overall school quality can have major impacts on local economies. He noted that improved student outcomes and teacher quality translate directly into increased individual earnings and direct benefits for local and aggregated economies. In addition, the speed with which improvement is made is also related to the speed with which the local economy improves. So, policies that generate quick and positive student performance will lead directly to substantial benefits in economic growth and development.

In short, promoting competition and giving parents more school choices in a way that is responsive to their preferences will eventually translate into greater economic growth. It is well known that investment in human capital is highly important for economic growth, but as Hanushek (2008) notes that it is the quality of that spending not the quantity that matters. Tax dollars should be chasing the most useful and productive educational inputs if we want to see a more flexible and capable labor force in South Carolina.

Simply spending more money on public education is not the solution to increased quality, better outcomes and economic growth. Spending more tax dollars on bureaucratic teams in order to determine how best to get increases in educational quality per dollar spent is not the most effective way to generate long-term economic expansion. The most effective way to take advantage of more efficient educational investment is to implement policies that increase school competition across the entire state. South Carolina has a chance to take advantage of the well-known fact that markets and competition lead to increased human capital, entrepreneurship and economic prosperity.


REFERENCES


