

The Work Ahead

Creating a truly competitive market in education will require nothing less than a complete overhaul of the rules and culture of public schooling

by FREDERICK M. HESS



What if Michael Dell, CEO of Dell Computer, and Michael Armstrong, CEO of AT&T, operated in a market where revenues depended hardly at all on attracting or losing customers? What if competition exerted minimal pressure and if market threats could often be trumped by successful efforts to glean government subsidies? What if they had only sparse information on the performance of personnel and could not fire or demote most employees? What if they could count on potential competitors' being deterred or eliminated by political and legal forces?

This should all sound familiar to education reformers because these are the market conditions faced by the administrators running urban schools today. For instance, since vouchers were introduced in Milwaukee in 1990, the school district's enrollment, total funding, and per-pupil funding have all grown steadily. From 1990 to 2001, enrollment climbed from slightly under 93,000 students to more than 98,000 (see Figure 1). Total spending by the district grew from just over \$580 million in 1990–91 to more than \$990 million during the 2000–01 school year. In other words, since vouchers and charter schools came to Milwaukee, the district's budget has risen by some 70 percent while its enrollment has grown by only 5 percent. Per-pupil spending has grown from about \$6,200 to \$9,700. A similar pattern prevailed in Cleveland, where vouchers were introduced during the 1995–96 school year. Enrollment in the Cleveland school district grew from about 73,000 in 1994–95 to slightly more than 78,000 in 2000–01. Per-pupil spending grew from slightly more than \$6,000 to more than \$8,000. These conditions make competition more of a relief than a threat. Some educators in Milwaukee and Cleveland have even come to describe their cities' voucher programs as a "safety valve" that helped to ease the pressure of overcrowding. This puts the lie to the oft-repeated claim of critics like

National Education Association president Bob Chase that school choice is "siphoning money from the communities and public schools that need it the most." Competition in most urban districts is like a gnat to a bull, there but barely noticed.

Nevertheless, in states like Arizona or Michigan, where charter schools are multiplying quickly, real changes in policy and behavior have emerged. And advocates of competition and school choice have been eager to parse every change for evidence that public school districts are responding to competitive threats and that markets are "working." Certainly some districts have adopted potentially valuable policies, such as providing all-day kindergarten, adding an extra year of preschool, or opening themed schools that meet the demands of particular groups and families. However, observers rarely bother to note that such efforts tend to be superimposed on the existing dysfunctions. There is little evidence that districts are restructuring or are being pushed by market pressures to revisit their "business model."

Moreover, in most cases, districts' responses have primarily taken the form of changes in marketing and outreach. In Arizona, Mesa Unified has tried advertising in local movie theaters and has conducted customer-service training for employees. The Flagstaff district now distributes leaflets comparing its expenditures and outcomes with those of neighboring districts. Milwaukee launched a campaign called "High Standards Start Here," replete with banners for each school, and worked hard to promote former superintendent Alan Brown's 1999 guarantee that all Milwaukee students would be able to read by the end of 2nd grade. While much of this is welcome—anything that prompts a public school district to increase its attention to customer service clearly has value—these changes may in fact make the schools less productive. After all, they take money from the schools and put it into ad campaigns that do nothing to change the schools themselves. Advocates of choice have been too quick to characterize the add-ons, rhetoric, and ad campaigns as the leading edge of a business-like, performance-



oriented response to competition, because they have failed to recognize that these changes are the product of a market that is fundamentally different from the hypercompetitive models described in economics textbooks.

A fluid, efficient market, one that promotes “creative destruction,” in Joseph Schumpeter’s memorable phrase, cannot simply be wished into existence. The uneven experiences with developing free markets in Russia and eastern Europe and our own difficulties with deregulating sectors like air transportation, telecommunications, and energy testify to the importance of the competitive environment. In the school choice debate, it is easy to overlook the institutional and cultural nuances of market-based reform, because economic competition in the United States, at least from a bird’s-eye perspective, looks similar across broad swaths of the private sector. Executives and investors generally seek to maximize the return on their investments; employees respond to certain incentives; managers are empowered to make decisions on hiring, firing, and promotions; and so on. But these conditions are almost nonexistent in many public or charitable enterprises—especially those devoted to tending the needs of children or the disadvantaged. Making education competitive requires more than just high hopes; the very culture and rules of public schooling must be overhauled.

Mixed Metaphors

The idea that schools might be less than responsive to competitive pressures should come as no surprise to promoters of school choice. After all, the reasons for promoting choice often rest on the fact that public school systems are strangled by politics, bureaucracy, byzantine contractual rules, and licensing procedures that aggravate a shortage of quality employees. Economists have long known that the ability of

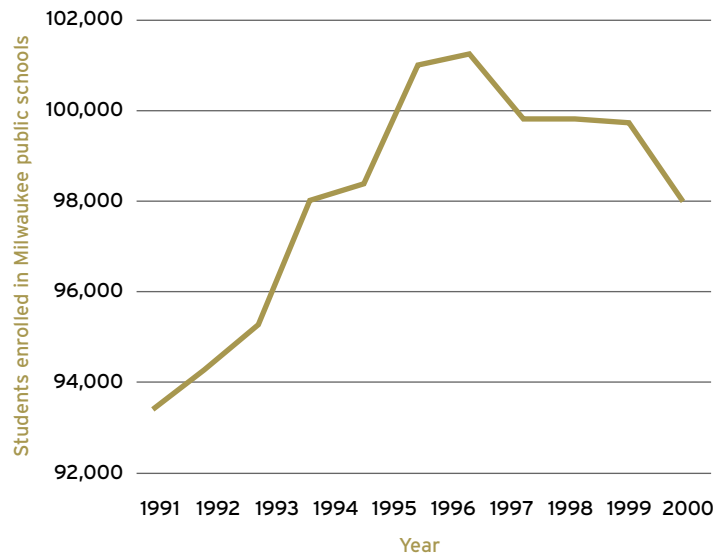
When competitive pressures are alleviated and competing firms can’t easily respond to market forces, changes may be haphazard and localized, like the holes created by the pick’s insistent tapping.

a market to promote performance often depends on the competitive environment. Hence it is surprising that so little attention has been devoted to the complexities of the education market in the debate over school choice.

Picture two fundamentally different kinds of markets. The classic image of the market is that of a bulldozer compelling firms to improve constantly—or be crushed. This is the picture that fans of choice seem to have in mind when they herald the promise of competition in education. How-

Softening Competition (Figure 1)

In recent years, Milwaukee’s voucher program and charter schools appear to have made inroads into the school district’s enrollment. Yet enrollment remains well above the levels of the early 1990s, making competition less threatening.



SOURCE: Wisconsin Department of Public Instruction

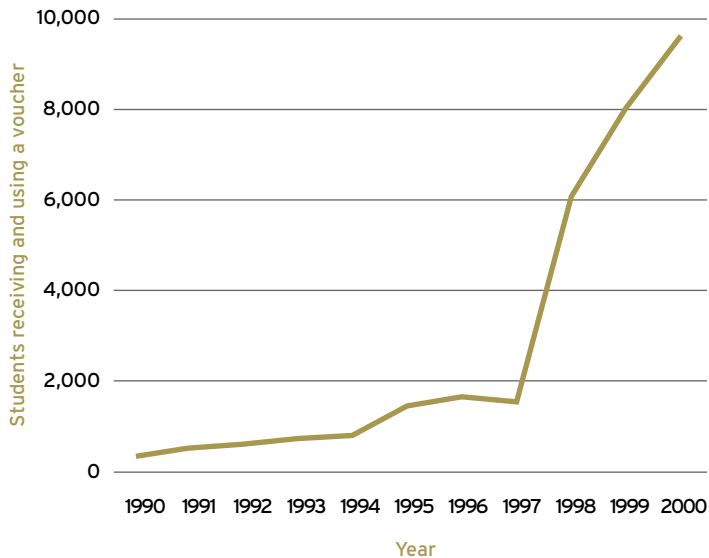
ever, a pickaxe may be a more appropriate metaphor in this sector. When competitive pressures are alleviated and competing firms can’t easily respond to market forces, changes may be haphazard and localized, like the holes created by the pick’s insistent tapping. The mistake may be in seeing these superficial reactions to the pickaxe as the leading edge of the more fundamental transformation driven by the bulldozer. Putting a jingle on the radio may be the deepest change a school district makes in response to a new school’s opening down the road.

This is not to say that schools will not respond at all to competitive pressures. It’s just that the responses rarely appear to touch the core of what schools do. When there is evidence of deeper change, these changes seem to depend on two crucial factors.

First, smaller, more coherent organizations are more likely to respond to competition than are larger ones. Individual schools tend to respond more aggressively to competition than do school systems. For example, the statewide

High Demand (Figure 2)

The number of students using vouchers to attend private schools in Milwaukee jumped dramatically when religious schools were allowed to participate.



SOURCE: Wisconsin Department of Public Instruction

voucher program in Florida provides a voucher to students in low-performing schools. During the program's first year, only two schools in the entire state were targeted by the voucher program. The principals and staff in these schools were put in a visible hot seat and thus given clear professional incentives to satisfy public demands. They were able to move their schools off the voucher list within a year. In this situation, when a scarlet letter "F" has been attached to their school and state sanctions are imminent, principals can rally their teachers and take action. However, it's unclear whether these schools were responding to the loss of students or to the public shame of being named the two worst schools in the state. If the state instead threatened to fire or reassign the principals and teachers at failing schools, the results would likely be the same. The point is that focusing meaningful pressure on individual schools is more likely to prompt a response than are more general efforts at promoting competition.

Second, competition is likely to improve performance on outcomes that are easily measured. This would be fine, except that choice proponents and critics both ask schools to expose children to many things that cannot be clearly or readily measured. It makes sense that the educators at the two failing Florida schools, when subjected to clear and immediate sanctions, redoubled their efforts to improve students' performance on state tests. Likewise, because test scores are often used as a proxy for school quality, it is not so surprising to see improvements in test scores where

schools are subjected to more competition. Similar results have been found whenever states subject schools to concerted pressure—as in the case of high-stakes testing. However, it is a mistake to presume that these changes necessarily reflect an improvement in school performance. A substantial portion of these gains may be produced by the simple reallocation of time and effort. If the state demands higher performance in math, schools may offer intensive math tutoring all morning, eliminating art and music classes to make the time available. While such changes may be desirable, it is a mistake to necessarily construe them as evidence of heightened productivity. Even if the resulting test-score gains are large, it is not clear that the schools are performing any better at the entire array of things we want them to do.

Straitjacketed School Systems

What can be done to make competition a more effective tool for school reform? Let's look at five factors that constrain competition in education.

Competition is fundamentally about fear. The motivating power of competition in education is that people fear for their investments or their jobs. So far, however, the threat posed by voucher plans has generally been quite mild. In Cleveland, for instance, the voucher for use at a private school has generally been worth only about 30 to 40 percent of what the public schools spend per pupil. In Milwaukee, the number of students using vouchers has increased sharply (see Figure 2), but the voucher itself has been worth only between 50 and 70 percent of per-pupil spending in the public schools. This has artificially constricted the supply of new private schools and the number of children who can afford to attend them. If the vouchers were set at a reasonable level, entrepreneurs would be willing to open new schools, not only giving children the opportunity to leave the public schools but also providing schools at which to spend the voucher. Many choice programs have been crafted to minimize the monetary impact on public districts. Meanwhile, charter schools enroll more than 1 percent of the K–12 student population in just a handful of states. They have also been subjected to extensive regulation and often target at-risk populations that public educators are happy to hand over. As long as choice plans are small and the financial pinch on districts is modest, it is unlikely that public school educators or policymakers will feel compelled to respond to competition.

Second, public educators are less sensitive to competitive threats than are private-sector employers and employees. Public schools have no watchdog shareholders to monitor market share or organizational efficiency. The stakes for school board members are far more attenuated than are those for investors, while superintendents are rarely evalu-

ated on issues like market share or cost efficiency. Instead, as public officials, school leaders face incentives to tend to the concerns of active and politically potent constituencies—particularly the teacher unions and civil-rights groups—whatever the impact of their actions on system performance. A lack of clear outcome measures or accountability mechanisms makes it difficult to compel system officials to resist this natural impulse.

Third, administrators' ability to respond to competition hinges on their ability to compel their subordinates to act, but school administrators find it difficult to monitor and evaluate what their employees are doing. Teachers work largely in isolation; face uneven sets of challenges; and must respond not only to the academic needs but also to the physical and emotional needs of their students. These details complicate administrators' goals of identifying weak employees and ensuring that they improve. Moreover, teachers know they have little need to fear for their positions. The urban areas primarily targeted by choice-based reforms are suffering through a prolonged teacher shortage. Districts like New York City scrambled to replace 10 to 15 percent of their teachers each year throughout the 1990s. This means that student enrollment must fall significantly and for a sustained period before such losses pose much of a threat to public educators. The natural growth in enrollment during the past decade meant that most large districts were much more concerned about where they would house the students who did *not* leave for a charter or private school. Schools in wealthy suburban areas, which typically have dozens if not hundreds of teachers vying for each open slot, might respond more energetically to competition, but widespread contentment among the parents in such districts has made schools of choice rare.

Fourth, when administrators do seek to monitor and motivate their employees, they are hindered by regulations, professional norms, and collectively bargained contracts over which they enjoy limited control. In the private sector, employees who ignore their bosses' goals and directives will suffer financially and professionally and may even lose their jobs. Such tools of persuasion are largely denied to school administrators. They have few perks to offer and find it extraordinarily difficult to fire employees. For the most part, teachers will respond to competition only if they choose to.

The culture of teaching compounds the problem. Generally speaking, people enter the public and private sectors for substantially different reasons. Many teachers are attracted to education for its child-centered, humanistic, and autonomous character. Seniority-based wage scales and a flat career trajectory make public schools an unwelcoming environment for entrepreneurial personalities. This creates a challenging environment for an employer seeking to focus

employees on performance or market share. Private-sector competition presumes that a large share of employees are concerned about career advancement and financial rewards. Executives at IBM rarely need to worry about whether employees might disregard their directives as a result of their personal conception of the job.

Finally, contemporary educators are unprepared, by temperament and training, to respond effectively to competition. Schools of education offer administrators little or no formal preparation in management or business practices. Education schools may train administrators in pedagogy, curriculum, procedural routines, legal concerns, and "leadership," but they offer no training in conventional business administration. In the private sector, firms generally have access to personnel skilled in areas such as market analysis or advertising. School systems rarely enjoy such talents. Administrators aren't expected to possess even a glancing familiarity with such concerns; marketing skills are seldom a criterion for support staff positions; and school districts are usually reluctant to contract for services of this sort.

Unchaining the Bulldozer

As public pressure builds for higher performance and stricter accountability, some of these constraints will loosen of their own accord. But policymakers can do much to accelerate the process. The simplest way to strengthen competition is to make it more threatening. Public school employees who are concerned about losing their jobs, desirable assignments, or material rewards are much more likely to cooperate with efforts to respond to a competitive threat. Policymakers can intensify competition by increasing the number of choice schools, the size of these schools, or the financial hit public schools experience when they lose enrollment. Expanding voucher programs and charter schools will involve more than just lifting the enrollment caps on such programs; it will also require private- or public-sector efforts to create more schools of choice.

The limited ability of choice schools to take in more students severely limits the threat posed by competition. Charter schools have grown dramatically in recent years, but still only 1 percent of K–12 students are enrolled in charter schools or use vouchers to attend private schools. Most choice schools are already operating at or close to capacity. Generating an ample amount of competitive pressure demands a substantial increase in either the size or the number of new schools. While charter schools have expanded at an impressive rate, the size of these schools has remained small: about 140 students. Assuming that trend persists, 2,000 new charter schools would have to be started each year through 2015 for charter enrollment to approach 10 percent of the public school population.

Moreover, efforts to open new charter and voucher schools have relied heavily on philanthropic support. Such giving is limited and is often intended to seed model programs, so it is unclear what resources will fund a significant expansion.

The fastest and most effective source of growth may be for-profit schooling. Opening a school requires an extensive initial investment, one that nonprofit ventures rarely have the capital to make. School managers motivated by profitability are more likely to open big schools and chains of schools because they are attracted to the potential return. Encouraging for-profit operators will dramatically increase the pool of capital available to open and expand schools and will lessen reliance on philanthropic and governmental resources. Many conventional charter operators report that they would rather operate small, one-site schools than seek to create a chain of schools. It is easy to forget that many charter school and private school educators entered education for the same humanistic, child-centered reasons as public educators. Running a large school or a chain of schools, with all the attendant bureaucracy, tends not to be their ambition in life.

Strengthening competition also requires giving school administrators solid information on student, teacher, and school performance and the incentives to care about such things. Administrators also need the tools with which to reward and sanction employees through hiring, firing, promotion, and monitoring. Without such tools, administrators must rely on personal charm and informal nudges to drive improvement—a daunting task even for skilled and seasoned executives. The more discretion they have, the more influential they'll be. These changes, of course,

recruitment efforts should seek executive ability at least as much as previous experience in education.

In other words, creating a meaningful sense of competition will entail fundamentally changing the culture of public schooling. The question is whether we actually want to trade the comforts of our present system for the benefits of a system more reliant on self-interest and more amenable to competition. Competition is likely to make schools less hospitable to those educators who love the autonomy and insulation from supervision that characterize most contemporary public schools. Efforts to cultivate competition may thus foster a culture of schooling that is alien to our educational heritage and may create an incentive structure that distorts educational priorities. However, the new milieu may also prove more attractive to bright, ambitious teaching aspirants. It may also lead to the proliferation of focused and effective schools that potential teachers find more appealing.

It is not clear that we are serious about embracing a school system characterized by vigorous competition. For instance, many advocates of charter schooling trumpet the freedom and innovation promoted by choice, but they remain hostile to the ideas of unbridled markets and for-profit operators. This is not an untenable position—one can believe in school choice but not an educational marketplace. However, small-scale competition is not going to unleash the market bulldozer. It is naive to pretend that it will.

The essential point is that the effect of competition on public schools is inextricably intertwined with the history and culture of American schooling. Half-hearted competi-

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would necessitate changes in the contracts, laws, and norms of professional education.

Finally, teachers and principals who care more about individual rewards and material incentives will be more receptive to administrative influence, helping administrators cut through the soggy resistance of the schoolhouse culture. This means attracting new kinds of teachers. Relaxing certification requirements, recruiting nontraditional educators more aggressively, and permitting administrators to reward teachers for performance will all help to attract more entrepreneurial personnel. Likewise, if education leaders are expected to respond to market imperatives, their training should more closely resemble that of business executives, and

tion will not overcome the bureaucratic and regulatory barriers woven into the education marketplace. Allowing competition to bloom and thrive necessitates shattering these constraints. Advocates of competition must accept this reality. And opponents of choice have an obligation to offer an alternative reform strategy that rests on something more solid than the high hopes and good intentions that have attended decades of failed reform efforts.

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