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MARKET-BASED REFORMS IN URBAN EDUCATION

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Acknowledgments

This paper was initially prepared for the Urban Seminar on *Creating Change in Urban Public Education* organized by William Julius Wilson in cooperation with the Robert Wood Johnson Foundation, Dec. 7-8, 2000, Cambridge, Mass. The author is grateful to the Robert Wood Johnson Foundation for support for that research, to participants in the Urban Seminar, and to Charles Clotfelter, David Figlio, and Jeffrey Henig for comments on the earlier version. This revision was supported by the Economic Policy Institute and has benefited from the comments of internal and external reviewers for the Institute.

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Washington, D.C. 20036

<http://www.epinet.org>

ISBN: 0-944826-98-9

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About the author

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Executive summary

Educational outcomes for many urban students are unacceptable: dropout rates are high, test scores are low, and fewer students go to college compared with their suburban counterparts. Among the many ideas for reforming urban education are those that fit loosely under the rubric of market-based reforms. They include various forms of public school choice, charter schools, voucher programs, and the use of education management organizations. Policy discussions about such reforms tend to be highly charged, with some people so strongly in favor of them and others so strongly opposed that no appeal to evidence is likely to change their views. This paper is not for them.

Instead, this paper is intended for those who understand that the issues surrounding the introduction of more market-based mechanisms into education are complex and who accept the view that evidence is useful in sorting through the issues. To that end, this paper uses the market framework of demand, supply, and market pricing to organize the extensive but disparate evidence on the effects of market-based reforms. The evidence includes not only analyses of experiences in the United States, which are still very recent and limited in scope, but also analyses of the outcomes of market-based reforms in Chile and New Zealand.

Overall, the evidence suggests that the economic model of markets does not translate easily into the provision of compulsory education. Nonetheless, many of the concepts underlying education markets, such as consumer choice, flexibility for schools, and incentives for them to raise the quality of education, are worth pursuing. The challenge for urban policy makers is to find ways to introduce these ideas while at the same time promoting the public interest that, ultimately, provides the rationale for a publicly funded and compulsory education system.

The match between market reforms and education is imperfect, and understanding the reasons for that imperfect fit is an essential first step in moving forward with effective reforms. The main factors generating the misfit are the following:

- *Multiple interests.* Large-scale market-based reforms in education tend to privilege the interests of individual parents and children. Yet any education system has many stakeholders with differing interests. The government, for example, has broad goals such as educating

citizens and training workers while students, teachers, administrators, local communities, future employers, and other stakeholders all have their own claims on the system. The legitimate interests of the various stakeholders might well conflict, and so, by privileging one set of interests over others, the market approach to education fails to achieve an appropriate balance.

- *Compulsory attendance.* Closely related to the public's interest in education is the fact that all children are required to go to school. As a result, public schools that are failing to meet the educational needs of their students cannot be shut down unless there are alternative schools for the children to attend. This reality means that a key mechanism of a typical market, namely the potential for firms to fail, does not function effectively in education.
- *Parental perceptions of school quality.* Because parents judge a school's quality in part by the socioeconomic composition of its student body, the playing field of school choice is not level, and "good" schools are not easy to replicate. Schools serving large proportions of low-income and low-performing students are typically at a disadvantage in the competition for students and for high-quality teachers and staff. As a result, the students in such schools are likely to be worse off after a market-based reform than they would be otherwise. The problem is not simply that low-income families might have insufficient information about a variety of schools or might not be able to afford transportation to another school — although these factors are relevant. More fundamental pressures are at work, keeping competition from being healthy and productive, especially for the most vulnerable students.

Supporters of market-based reforms predict that, even if the reforms hurt some students, they could still be beneficial if competition for students made schools more productive overall and increased average achievement levels. The evidence, however, does not provide much support for this prediction.

The most powerful evidence on the effects of competition emerges from the extensive Chilean experience with a voucher system. Competition from the newly expanded private sector in that country generated small positive gains in achievement among some middle-class public schools in Santiago, Chile's capital, and small negative effects in the rest of the country. Evidence from the U.S. is mixed as well. This mixed picture is important in that it clearly does not support the claim of those who argue in favor of

more parental choice on the instrumental grounds that it will make an education system significantly more productive.

Not surprisingly, there is evidence of greater parental satisfaction and possibly greater student achievement for students who are able to exercise expanded options to choose other schools. Many U.S. studies show, for example, that some students, especially disadvantaged students, tend to do better in Catholic private schools than their counterparts in public schools, even after controlling for measurable differences in the students' family backgrounds. Some questions remain, however, about whether researchers have adequately controlled for differences between the students who attend the two types of schools.

Recent privately funded voucher programs in New York City, Dayton, and Washington, D.C. minimize this evaluation problem because students have been randomly assigned to voucher and non-voucher groups. Analyses of these programs have found some positive achievement gains for students exercising the option of going to a private school but, somewhat curiously, only for African American students. Unfortunately data from the highly publicized voucher program in Milwaukee have not been made available since its expansion in the mid-1990s. The best of the early studies of achievement gains appear to show some gains in math but none in reading. Supporters of market-based reforms also argue that the reforms will help to promote innovation and eliminate inefficiencies caused by bureaucratic red tape. Giving schools more flexibility is a goal of the site-based management programs in many public school systems and is one of the driving forces behind the charter school movement.

Experience with these new forms of school governance is at best mixed. Although Chicago's experience with school site councils is often cited as a prime example of decentralized control, that program had little success and has been subsumed under a highly centralized accountability system. As for charter schools, generalizations are hard to make given how new they are and the great variation in charter school laws across the country. Available data suggest that, despite the hopes for charter schools, the amount of innovation appears to be relatively modest, especially in teaching and learning.

An alternative approach for eliminating red tape is for public schools to contract with education management organizations. The oldest and most widely known is the Edison Company, which also operates charter schools. Evaluating the success of the Edison program has been difficult because the company controls all the data. External, arms-length evaluations are clearly needed.

Expanding the choices available to parents about where their children

go to school would be desirable, especially for the parents of disadvantaged students whose choices are now so limited. In addition, providing more flexibility to schools has some clear advantages. However, any movement toward more parental choice and flexibility for schools requires safeguards. On the demand side, policy makers need to balance the preferences of parents against public interests. On the supply side, safeguards might include not allowing schools to select their own mix of students, limiting the number of charter schools, and implementing good support and accountability systems for schools. The struggling schools, in particular, will need enhanced resources and a greater claim on high-quality teachers and staff. Otherwise market-based reforms will generate a growing divergence between the “good” and “bad” schools to the ultimate detriment of not only the most disadvantaged students but also the education system as a whole.

Introduction and overview

Educational outcomes for many economically disadvantaged and minority students living in large U.S. cities are unacceptably low. Drop-out rates are high, and test scores are low, especially for those students living in areas of concentrated poverty. Moreover, test scores for urban youth typically decline relative to national norms as the students progress through school. Yet without a good education, students have little hope of participating fully in the economic and civic life of an increasingly knowledge-based and globally competitive society. Not surprisingly, reform of urban education is high on the country's domestic policy agenda.

Among the many ideas for reforming urban education are those that fit loosely under the rubric of market-based reforms. Included among these ideas are various forms of public school choice, charter schools, voucher programs, and the use of education management organizations. Defining the full set of market-based reforms with any precision is complicated by the fact that many such reforms do not rely exclusively on market arguments for their rationale, and many are only partially market oriented. In addition, the reforms just mentioned leave out other options (for example, greater use of pricing mechanisms to allocate teachers among schools) that arguably fit more clearly in a market-based reform strategy.

Notwithstanding these definitional ambiguities, policy discussions about most market-based reforms in education tend to be highly charged, with some people strongly in favor of them and others adamantly opposed. For a significant number of proponents and opponents of market-based reforms, the basic issue is one of values. For some, parental choice is an end in itself. For others, any move to harness market forces fundamentally threatens public education. Thus the fight over parental choice and competition is often a "struggle for the soul of American education,"¹ and no appeal to evidence is likely to change these views. This paper is not for them.

For many others, however, the issues are more complex. These people recognize that any benefits of market-based reforms must be weighed

against the costs; that greater reliance on market mechanisms might be desirable in some situations but not in others or might promote some goals and not others; and that some forms of market-based reforms might be more desirable than others. The challenge for these policy makers, advocates, and analysts is to structure the vast amount of information on market-based reforms in a productive way and to sort through the evidence to develop productive policies.

This paper is designed for the latter group of policy makers, advocates, and analysts. The goals are three-fold. The first is to use the straightforward market framework of demand, supply, and market pricing to structure what otherwise would be a complex and confusing mass of issues and information. The second is to take a critical look at the relevant evidence on how choice and competition affect educational outcomes, supplementing evidence from the United States with evidence from countries such as New Zealand and Chile. Unlike the United States, these countries have had many years of experience with market-based educational reforms. The third goal is to provide guidance to policy makers on all sides of this complex issue without promoting any one position. Hence the policy discussion focuses primarily on the types of constraints or safeguards needed to make the most appropriate use of market-based reforms in education.

The market framework

The logical structure for evaluating market-based reform strategies for education in urban areas uses the three main components of a market: demand, supply, and pricing. The demand category includes reforms that increase the educational choices available to families and children. Supply-related reforms relate to the types of schools that deliver education in urban areas. Pricing describes reforms designed to increase the extent to which prices are used to balance supply and demand in education markets.

Traditional urban education systems are not particularly market-oriented in any of these three dimensions. Consider first the demand side of the market. Many families have traditionally had significant choice over which schools their children will attend, but the choices have been constrained in ways not typical of other markets. Most obviously, the choice among public schools has been linked to a family's decision about where to live, a decision that gives wealthy families more choice than poor families. A 1993 survey indicated that, among parents with incomes of \$50,000 or more and children in public schools, 60% said that school quality was a factor in choosing a residence (cited in Viteritti 1999, 11). Evidence that families pay attention to school district boundaries in making their resi-

dential decisions also emerges in studies highlighting the higher housing prices that families are willing to pay in order to live in elementary school districts with better educational outcomes (Black 1999). In contrast to wealthy suburban dwellers who often have many choices, low-income families living in large cities typically have few options. For example, in the suburban area around Chicago, families can choose from among 95 high schools, most of them operated by different districts; in the city, a single district operates all 63 high schools.

Also on the demand side is the fact that the options available to families are biased in favor of public schools over private schools. If a family has the alternative of sending its children to a free public school, the rational family will choose the private school only if the *additional* benefits of the private school over and above those of the public school exceed the cost of the private school. Because residential choice and the private school mechanism are more readily available to high-income families than to low-income families, many disadvantaged families in urban areas have little choice over the schools their children attend.

With respect to the supply side, most students have access to a single type of supplier, typically a public school that enjoys relatively little autonomy. Only about 11% of all children attend private schools, and almost 80% of these are religious schools. Aside from private schools, the elementary and secondary public education system has made very little use of private firms to deliver basic education services; in addition the elementary and secondary system historically has not given public schools the autonomy characteristic of private suppliers. Although the introduction of school-based management has provided many public schools more flexibility than in the past, much of the operational control still remains in the district central office.

Finally, consider the role of prices. Outside of the private school sector, prices play little or no role in elementary and secondary education. Prices in the form of tuition and fees have typically not been used either to allocate students among schools or as a signal to establish new schools. Instead students have traditionally been assigned to schools based on where they live, and new schools have been built more in response to political and budgetary considerations than in response to excess demand for a certain type of school. It is also worth noting that prices are underutilized in the market for teachers. While market forces, including prices (that is, salaries), influence the distribution of teachers among school districts, price differentials play little or no role in allocating teachers within districts. Instead the single salary schedule for teachers has generated a situation in which the more senior and/or more able teachers have incentives and op-

portunities to transfer out of schools serving large proportions of disadvantaged students and to move to schools with higher performing students. Although not generally included in discussions of market-based reforms in education, the use of salary incentives to influence the distribution of teachers receives some brief attention in this paper.

Implicit in any marketplace is the concept of competition. In private sector markets, where consumers are free to choose among suppliers, competition for customers provides a strong incentive to provide high quality outcomes at low prices. Analogously, a major goal of market-based reforms in the education sector is to introduce more competition as an incentive for improved performance. Competitive pressures in private sector markets generate winners and losers, with losers going out of business. The international evidence cited below indicates that even in a market-driven education system governments find it hard to close failing public schools, especially if overall enrollments are rising and capacity is limited. Because education is compulsory, failing schools can be closed only if students have other options.

Policy implications

The bottom line is that the economic model of markets does not translate easily into the provision of elementary and secondary education. Moreover, the evidence does not support the claim that market-based reforms will generate large and positive effects on the overall productivity of the education system. At the same time, many of the concepts underlying education markets—such as consumer choice, flexibility for schools, and market incentives—are worth pursuing but only with appropriate safeguards.

One central question is whether competition for students that is induced by giving parents more choice over the schools their children attend will provide effective incentives for schools at the bottom of the performance distribution to improve. The international evidence shows not only that competition is unlikely to improve such schools, but also that it is likely to exacerbate their problems. In a competitive education market for students, schools that are unable to compete successfully for students will lose funding, find it increasingly difficult to attract high-quality teachers, and then end up with even greater concentrations of difficult-to-educate students. As a result, the quality of education received by the students remaining in these schools will deteriorate. Although school officials might ultimately decide to shut down such schools, that process is likely to take time and can only occur when there are sufficient places available in other schools.

Given this outcome, citizens must ask whether it is appropriate to

organize the delivery of education in such a way that it inevitably will make the students in some schools worse off. Some people might accept this as the price to be paid for improving outcomes for the students who are able to leave such schools. For others it provides a compelling argument for developing strategies to minimize the adverse effects of choice and competition on the students left behind.

The failure of choice and competition to solve the problems of the most distressed schools and their students does not by itself mean that they generate no educational benefits. Choice and competition might still make the overall education system more productive either by raising average achievement levels or lowering the costs of providing education or some combination of both. The evidence from the United States and other countries is at best mixed. Although analysts might wish for clearer and more consistent evidence of the effects of choice and competition on student achievement in either a positive or negative direction, the fact that the effects are unclear is nonetheless important. The evidence simply does not support those who argue in favor of more parental choice and competition on the instrumental grounds that they will make an education system significantly more productive than it would otherwise be.

More appropriate than large-scale market-based reform would be judicious movement in the direction of the market along one or more of its three dimensions as part of comprehensive reform packages. There are good reasons to expand parental choice, especially for economically disadvantaged families. The challenge for urban policy makers is to balance the benefits of parental choice against other values that justify the use of public funding for education and to build in appropriate safeguards to protect values jeopardized by market forces. To achieve these ends, some constraints will inevitably need to be placed on parental choice. One strategy is the use of some form of controlled, or managed, choice. In such a system, students would be assigned to public schools based largely on parental and student preferences, but attention would also be paid to social considerations such as the ethnic or socioeconomic mix of students in each school.

In addition, a case can be made for more options and flexibility on the supply side, not only as a way of expanding choice for families but also as a means of injecting new ideas and vitality into the education system. Crucial to such options, however, is a system for holding schools accountable to assure that public funds are being used appropriately. Finally, although it is not appropriate in urban education to use price more extensively as a mechanism for allocating students among schools, prices could be used more effectively than is now the case to allocate teachers among schools.