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MERIT PAY HAS PITFALLS FOR SCHOOLS

New study reveals significant downsides of reward-punishment systems based on quantitative outcomes, whether in public or private sector

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Some school policymakers are promoting a new idea for improving the schools: merit pay plans that would tie teachers' pay to the scores their students earn on standardized math and reading tests. Advocates of this approach base their support on two assumptions: first, that merit pay is long-established and widespread in the private sector, and second, that students' test scores are a reliable way to gauge how well teachers are doing their jobs. Both assumptions, according to a new research report issued today by the Economic Policy Institute, are faulty.

In ***Teachers, Performance Pay, and Accountability: What Education Should Learn from Other Sectors*** Scott J. Adams, John S. Heywood and Richard Rothstein examine the evidence that underlies these assumptions, concluding that the use of merit pay systems based on quantitative measures is fraught with perverse consequences that often thwart the larger goal of improving the quality of services and outcomes and that such systems are not widespread among private sector professionals.

As Daniel Koretz writes in his preface to this volume, "In large part because available numerical measures are necessarily incomplete, holding workers accountable for them – without countervailing measures of other kinds – often leads to serious distortions." He notes that the limitations of numerical measures of success are especially acute among professionals with complex roles, since "the available objective measures are seriously incomplete indicators of value to firms, and therefore, other measures, including subjective evaluations, have to be added to the mix."

In Part One of the study, entitled "Performance Pay in the U.S. Private Sector," Adams and Heywood offer a detailed description of performance pay systems utilized by businesses and track the trends in their use. They find that, contrary to the claims of advocates of teacher merit pay, "relatively few private sector workers have pay that varies in a direct formulaic way with their productivity, and that the share of such workers is probably declining." Haywood added, "Formulaic reward structures often reward only a few dimensions of productivity and run the risk of causing workers to abandon effort in the dimensions not rewarded."

Their research shows that even though many workplaces pay "bonuses," these are generally not regular performance-related pay of the kind that is being promoted for teachers. And even though the use of bonus pay has grown, that expansion has not been widespread but rather has been focused in certain occupations and industries. The authors describe this growth as "largely a non-union, male phenomenon concentrated among managers and professionals and in finance, insurance, and real estate." Performance pay now covers only about one in seven workers and represents only a small portion of their compensation.

EPI economist Joydeep Roy, co-editor with NYU's Sean Corcoran of this series, noted that "Policymakers should probably think twice before they transfer to education the pay system that has helped generate the global financial crisis." In addition, Corcoran said, "Rewarding workers for good performance is the mark of any successful organization. But, as this book shows, private and public sector organizations have long been aware of the perils of narrowly focused incentive schemes."

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Adams and Heywood observe that private-sector performance pay tends to be concentrated in areas whose activities and goals bear little, if any, resemblance to those of schools or other public sector institutions – in sales, for example, where a clear individual-output measure correlates with the firm’s goal of maximizing profits. Adams noted, "Use of performance pay in the private sector, which aligns workers’ interests in greater wages and secure long-term employment with employers’ interests in maximizing profits, need not alone justify the suitability of such schemes for the public sector, where employment is more secure and there are typically no profits to maximize.”

They note, further, that many government functions involve substantial team production and multi-dimensional measures of success, ranging, for example, from disease research teams to police and firefighters. Attempts to establish measures of individual success in these circumstances often lead to unintended outcomes – such as “quotas” for arrests that can produce an overemphasis on less serious crimes, and many other distortions that are detailed in the report.

In Part Two, Richard Rothstein explores “The Perils of Quantitative Performance Accountability” in the field of education, as well as a broad range of other areas extensively studied and documented by social scientists and management theorists. Rothstein’s work shows how even the best-intentioned attempts to create systems for measuring performance often subvert the goals and values of the firm or organization being measured.

Rothstein paints a vivid picture of the perverse consequences created when numbers-based accountability measures encounter the human talent for gaming the system. He draws upon familiar examples such as body counts employed by the military during the Vietnam War, ticket quotas and crime clearance rates used by law enforcement agencies, TV sweeps week, best-seller lists, and college rankings, as well as examining the impact of health care report cards on health care delivery.

He also cites less familiar cases, such as a system devised in Santiago, Chile, to prevent buses from “clumping” together by paying drivers per-passenger. The system was meant to encourage drivers to increase their trailing distance behind the bus in front in order to allow more passengers to gather at each bus stop; instead, it inspired drivers to speed up in order to overtake and pass the lead bus to reach the passengers further along the route first. As a consequence, drivers paid under this system are involved in 67% more accidents per mile than fixed-wage drivers.

One of the chief shortcomings of test-based accountability in education, Rothstein notes, is that it doesn’t take into account the wide variations in student characteristics. He writes, “A school with large numbers of low-income children, high residential mobility, great family stress, little literacy support at home, and serious health problems may be a better school even if its test scores are lower than another whose pupils do not have such challenges; similarly for teachers.”

Rothstein does not conclude schools and teachers cannot or should not be held accountable; rather, he urges that any accountability system must be built on the extensive experience and research inside and outside of education and on an informed assessment of the gains and losses inherent in any system. As he writes in his conclusion: “In education, most policy makers who now promote performance incentives and accountability, and scholars who analyze them, seem mostly oblivious to the extensive literature in economics and management theory documenting the inevitable corruption of quantitative indicators and the perverse consequences of performance incentives that rely on such indicators. Of course, ignorant of this literature, many proponents of performance incentives are unable to engage in careful deliberation about whether, in particular cases, the benefits are worth the price.”

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Teachers, Performance Pay, and Accountability: *What Education Should Learn from Other Sectors* is the first in a series on alternative teacher compensation systems. Series editors are Sean P. Corcoran and Joydeep Roy.