

Competition in Education: An Update

On December 3, 1999, Pioneer Institute sponsored a Forum on the impact of school choice programs in Massachusetts. The forum focused on an [update](#) to a 1997 study on the interdistrict choice program, which permits students to attend participating out-of-district schools. The new study gathered data for two additional years of the interdistrict choice program as well as similar data for the state's charter school program. Both studies analyzed districts' responses to losing students to see if competition for students resulted in positive initiatives. Forum participants included:

David J. Armor, Ph.D., research professor in the Institute of Public Policy at George Mason University, and the author, with Brett Peiser, of the 1997 study [Competition in Education: A Case Study of Interdistrict Choice](#).

Susan L. Aud, a Ph.D. student in the Institute for Public Policy at George Mason University, and the author of the [follow-up study](#)

Frederick M. Hess, Ph.D., assistant professor of education and government and foreign affairs at the University of Virginia, who has written extensively on education reform and education policy.

Joseph P. Viteritti, Ph.D., research professor of public administration and adjunct professor of law at New York University, and the author of *Choosing Equality: School Choice, the Constitution, and Civil Society*.

In the following pages, Pioneer has reproduced an edited transcript of the forum.

David Armor: The original study, which I conducted with Brett Peiser, focused on the systemic effects of school choice ? the actual mechanisms and dynamics of competition and what actually happens to school systems when faced with competition. For example, will school choice "skim off" the best students and increase social and racial segregation and have adverse economic effects on school districts? Or will education improve when schools have to compete in the open market for students and not rely on a captive audience?

In the face of competition, organizations have several choices. One choice, if the competition is weak, is to do nothing. This might be the case with schools not really experiencing any losses of market share ? that is, not losing students. A second category is where competition is strong but the organization, for whatever reason, does nothing about it. These may be schools that lose students in substantial numbers but do nothing about it because of bureaucratic inability, a failure to recognize the problem, or some other set of problems. A third category is a positive response to strong competition in an attempt to preserve or win back market share. In the school setting this corresponds to school districts which lost a lot of students but, rather than being unable or unwilling to change, took it as a challenge, went back to their boards or city councils to raise money, change programs, and change policies in an effort to get the students back. We call these "change districts."

If you believe that competition does not have any impact upon education or that this model doesn't apply to education, you'd expect most school districts to be in the second category. Or if they're in the third category you'd expect that in spite of making changes, nothing would happen. We found, in contrast, that most school districts were in the first or third category, and all the districts we studied in the third category had a substantial impact upon their market share; that is, they were able to reverse the losses. In sum, we found in the original study that the competition model did apply and that there were very few adverse effects socially and on the racial segregation of schools.

Susan Aud: I'm going to discuss the follow-up study. We were able to get two additional years worth of data and look at, as of the 1997-98 school year, the racial and financial impact of Massachusetts' interdistrict choice program and the charter school program, which was added. We also looked at the trends that were discovered in the first study to see if they continued and answer the question of whether competition can work in public education.

As to the racial impact of school choice, minorities are participating in the choice programs in numbers higher than the statewide minority enrollment, partly because charter schools tend to over-serve minorities but also because interdistrict choice minority participation has increased since the first study. But the impact on the racial makeup of individual districts is minimal for the most part? less than one percent change in minority enrollment at most. Some districts, like Milford, actually have a low minority enrollment, so an increase is a positive effect.

Turning to the financial effects of these programs, the losses are somewhat higher. Only one school district in interdistrict choice actually lost more than four percent of their operating income. Charter schools are having a greater financial impact on sending districts, but we need to look at what the reaction to these losses was.

So the second half of the study looked at what happened to the districts that experienced the largest losses. Remember the original study categorized these districts into three groups. One is "no-effect senders" who didn't really feel any effects of their losses because they were not very high? maybe a one percent loss. Another group is "no-change senders" who experienced a larger loss but did not respond to it. The third group can be categorized as "change senders;" in their interviews and surveys they said, "We intend to do something about this; this has been a wake-up call for us." With two more years of data, we see they've actually reduced their losses so that their average loss is below the average loss of the no-change senders. In fact, one of these districts is now a net receiving district. This is a very important point because the competition model for these districts has really worked. They had the highest losses, but they said they were going to change, and they did something to get their students back. So competition has worked for these schools.

To test whether this might just have been an anomaly, we looked for trends in other districts that lost large numbers of students but weren't originally case study districts. These districts were then divided into the ones that lost more than two percent of their enrollment and ones that lost less than two percent. Those with the higher losses? around two or three percent? have responded to the competition threat and have regained some of their students. On average, their losses are now

less than the districts that had originally lost fewer students.

When faced with a competitive threat, these school districts responded. But the point I want to make is that you have to feel the threat. All districts' per pupil expenditures are becoming more and more similar because of the foundation spending program. As of 1998 the change senders? the districts that felt the competitive pressures and got their students back? have the lowest per pupil expenditures. The no-effect senders, in contrast, have experienced rather large increases in per pupil expenditures, but state reimbursement for tuition losses is mitigating the effects of the competition for these school districts. The relationship between spending and performance, which has been open to question for some time, is somewhat played out here because the lowest spending districts have made improvements and done the best job at getting their students back.

As I mentioned, the losses to charter schools tend to be larger absolute amounts than the losses to the interdistrict choice program. As of the 1997-98 school year, there were four districts that lost more than four percent of their total enrollment to charter schools. Since districts that lost two or three percent to interdistrict choice began to respond, you might guess that these districts would be doing something right now to respond as well.

Let me conclude with several policy implications of this update study. First, since the interdistrict choice program is not having broad negative impacts in terms of race, but somewhat in terms of financial impact, which is being responded to, I believe it should be opened up and all districts participate as receivers. Second, the competition effect would be enhanced by the elimination of tuition reimbursement so that the districts which lost students would lose the dollars and actually feel the effects and have the chance to respond like change districts. Finally, the large absolute losses to charter schools that some districts have experienced lend themselves to further research to find out how the districts have responded to the threat of competition.

Frederick Hess: Susan finds what we would expect: there are indeed competitive effects in education, like everywhere else. But the nature and implication of these effects are going to be shaped largely by institutions and more specifically by the structure of these organizations, the people in them, and statutory limitations. Susan's study can help us understand the parameters of school districts' responses to competition. Even if we find that there is response, it's vital to understand what the elements are that help districts respond effectively to competition.

If you presume the competition is the desirable direction for education reform? and there are all kinds of reasons to debate whether or not we're comfortable utilizing a competitive model in providing our children's education? it is naive not to think about ways in which to make the markets operate most effectively. It is simply untenable to say we want markets but we'll let them take care of themselves, because markets are fraught with imperfections. It behooves us to try to construct rules and help equip organizations to compete effectively.

There are six dimensions of institutional behavior that limit the effectiveness of districts to respond to market pressure. One is the nature of incentives. If you're a superintendent and lose market share, you don't actually lose anything? not in the tangible sense that a CEO of a company which loses market share loses money. We don't have real monetary sanctions in education. What we have is the notion that the

populace will be upset and express their dissatisfaction to the school board, and the school board will then come "head-hunting" for the superintendent. But this is a very indirect mechanism. The corporate model of market effects does not translate cleanly in the traditional public sector. It translates much more cleanly into the proprietary education sector (e.g., charter schools) where a school's existence and resources are directly dependent upon its ability to attract students.

In addition, people in education don't have a lot of incentives to do what the folks in charge want them to do. Even if the school board and superintendent want a school to improve, they can't give salary increases, promotions, or even better offices to the people who do what they're told. Part of the choice mechanism ought to include things like merit pay, career ladders, and pay for performance.

The second dimension of institutional behavior involves sanctions. It's very difficult to sanction people in school organizations. It's hard to terminate somebody with tenure. It's very hard to demote somebody? it's not even clear what that means except to give them the less desirable kids, which is essentially punishing the kids. The rate of turnover, particularly in the large urban districts that we're most concerned about, is such that teachers aren't really concerned about losing their jobs. On the other hand, Susan interestingly suggests that in Massachusetts, where there are small districts and a limited job market, districts might be under much more pressure to respond effectively.

The third dimension is the makeup of the work force. Quite frankly, a lot of people in education don't go into education for the monetary rewards but because they like the environment and working with children. They are not the kinds of people likely to respond to specific monetary incentives. What this implies is that we need to think about ways to factor culture into the discussion, and attract a different kind of employee into education in order to make schools respond better to competition? but to the extent that the best teachers are people who like the intrinsic rewards, we might actually be creating perverse changes in the makeup of the teacher workforce.

The fourth dimension is program structure. If districts actually lose money, they're more likely to respond. This is a point Susan made. The fifth is innate market capacity. How much competition actually exists? Are there private schools and charter schools to "suction off" a large number of students? This makes an obvious difference. Finally, there's the nature of governance. To the extent that the folks in charge of school systems are able to monitor, reward, supervise, and get "in the face" of employees, they're more likely to actually to see that they respond.

Susan's valuable study has pointed out districts to look at and see why some responses are or are not occurring. But before generalizing from these districts to the places we're really concerned about? large troubled urban districts such as Boston? we have to understand better why some districts are more likely to respond than others.

Joseph Viteritti: I'm going to talk about the equity aspects of choice and competition. There are two basic models of choice in education: the market model and the equity model. The market model was epitomized by the work of Milton Friedman, who was the first proponent of a voucher program. His goal was to break up what he saw as an educational monopoly that was controlled by public school systems. He hoped competition would drive under-performing schools out of

business and provide an incentive for other schools to improve. He envisioned a system of schools that would be publicly financed but privately run.

The equity model has come about more recently. We've seen some beginnings of it in magnet school programs (to desegregate schools and to provide better opportunities for poor kids) and in interdistrict choice programs. We've also seen voucher programs come about in Cleveland, Milwaukee, and Florida that are not pure market model systems that Milton Friedman advocated, but are specifically designed to accommodate the needs of kids who are under-served in their public schools. None provides vouchers for everyone; Cleveland and Milwaukee are income-based programs, and the Florida programs are designed to accommodate kids who are attending chronically failing schools.

Charter schools are another piece of the equity model. They are public schools. While not specifically designed to serve poor kids, there's open enrollment and in most cases the student body is reflective of the population of the local district. In those cases where they're not, there tends to be a slight over-subscription of poor and minority kids who are looking for alternatives.

Between charter schools, voucher programs, and public choice programs, a lot has happened on the choice front, but good policy has been circumscribed by cynical politics and the result has been to stem competition and limit opportunities. The program Susan talked about is a case in point. When districts lose students, they get reimbursed. There's still a certain protection for school districts that are called "below foundation." This is typical of choice programs around the country: when a child leaves, the district is absolved of any financial responsibility for that kid. What follows the child is some but not all the dollars? the state dollars. So it turns out that there's a financial windfall for the school system the child left. There's a similar program in New Jersey where losing districts keep a portion of the state funding and all of the local funding that might have been spent on a student who was in the district. This is not what Milton Friedman had in mind when he talked about the effect of competition.

We see the same thing with charter schools. We limit competition in two ways: we limit the number of charter schools we can have, which is an artificial constraint on competition, and we limit the amount of money that follows students who leave district schools.

The general rule of thumb around the country is the further you go away from the norm of a geographically defined district where students are assigned on the basis of where they live, the less money is allocated for the student. Cleveland is a good example because it has regular public, charter, and voucher schools. Per capita spending for an average public school student in Cleveland is \$7,746. If a child decides to go to a charter school the money spent on that child drops to \$4,518. And if the child decides to go to a private, or voucher, school, \$2,250 is allocated. This not only stems the effect of competition but it takes the whole concept of compensatory education and turns it on its head. Since these are programs that are designed to help kids who are not doing well in regular public schools, they tend to serve a disproportionate number of poor performing children and underprivileged children, yet we give them less money. Rather, we should encourage competition while allocating money to children in a way that does not cap the amount of opportunity and does not under-fund them.

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