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## COMPETITION AND EDUCATION REFORM

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**A**PPROXIMATELY \$9 BILLION of the \$787 billion authorized by the American Recovery and Reinvestment Act (ARRA) is for funding K-12 education in the states. States may access these funds provided they meet two main eligibility criteria: States must agree to institute more charter schools, and they must implement performance pay for teachers.<sup>1</sup>

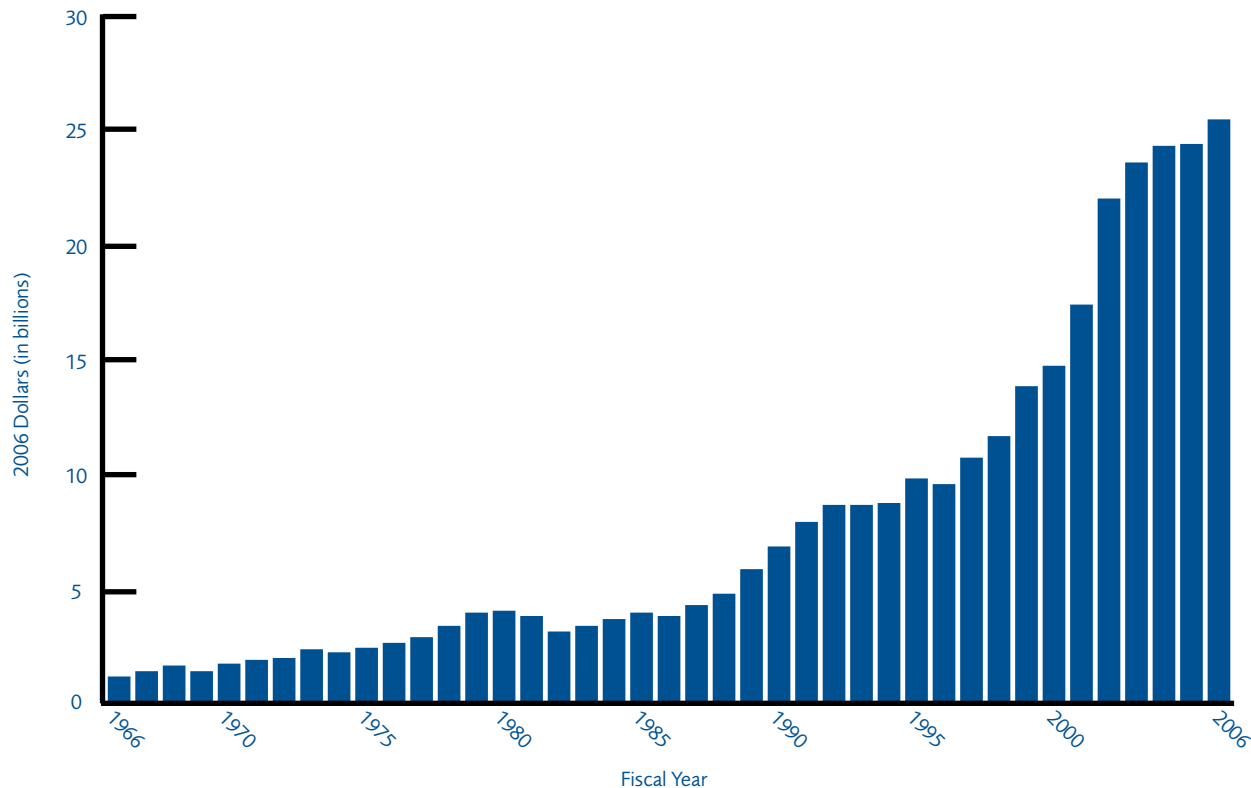
These policies represent an improvement over the previous administration's policies, which focused on standardizing education policy nationwide. By encouraging charter schools and performance pay, the Obama administration wants to introduce much-needed competition in the provision of public education.<sup>2</sup> However, the government may fall short of achieving its desired outcome because its approach rests on an incomplete view of competition.

Competition is not a state of affairs; it is a process that is defined not by the number of competitors in a market, but by the ease with which potential competitors can enter the market.<sup>3</sup> Instead of introducing competition, federal funding will likely continue to homogenize state education policy rather than encourage flexibility, greater responsiveness, and diversity.

### THE FEDERAL ROLE IN EDUCATION

POLICY MAKERS OFTEN tout federal education policies as panaceas for improving K-12 education. A predominant school reform policy to reverse performance decline is to increase overall spending.<sup>4</sup> This argument rests on the idea that underperforming schools are underfunded, and spending more money in these schools would increase student performance. The inaugural example of this in federal policy, Title 1 to the Elementary and Secondary Education Act of 1965, remains the largest federal effort to spend schools out of underperformance. Figure 1 shows that the federal invest-

FIGURE 1: FEDERAL SPENDING UNDER THE ELEMENTARY AND SECONDARY EDUCATION ACT



Source: 2006 U.S. Budget, Historical Tables.

ment in the Elementary and Secondary Education Act rose from under \$2 billion in 1966 to \$15 billion in 2000 and \$25 billion in 2005.

The increase in federal spending for education has been ineffectual. Evidence from New York City suggests Title 1 funds have had, at best, no impact and, at worst, a negative impact on student performance.<sup>5</sup> A possible reason is that states receiving federal funds shift money away from increasing student performance or change the way they spend money.<sup>6</sup> The data on school spending suggests we cannot conclude that the amount of school resources affects student performance.<sup>7</sup>

Second, the federal government has targeted spending to increase the use of technology. The Department of Education spends hundreds of millions of dollars per year to promote technology use in the classroom.<sup>8</sup> But two recent reports commissioned by the Department of Education indicate increased technology in the classroom does not increase student performance.<sup>9</sup> The more recent of the two studies examining the impact of different instructional software packages on student performance<sup>10</sup> show no difference, even when teachers have become familiar with the software, in performance between students using the software and those not using it.

Federal policy has also targeted teacher certification. The Bush administration’s No Child Left Behind Act (NCLB)

gave the federal government authority to set certification standards in the states under the assumption that requiring teachers to meet certain requirements, such as fulfilling state certification standards and having a bachelor’s degree in the subject they teach, would weed out poorly qualified teachers.<sup>11</sup> Yet, the body of knowledge on teacher quality shows that even the “experts” know little about what contributes to teacher quality.<sup>12</sup> Standardized policies like NCLB remove decision-making power from local and state authorities, effectively depriving schools of the freedom to experiment to see what works.

#### OBAMA’S PLAN: CHARTER SCHOOLS AND PERFORMANCE PAY

THE TOP-DOWN APPROACH previous administrations used to reform the education system failed because it did not account for the one thing that would most improve educational performance: competition. The current administration is making significant improvements with the policies it is promoting—more charter schools and performance pay for teachers. Rather than promoting the traditional top-down approach, the Obama administration has signaled an understanding that increasing competition in the provision of education will lead to better educational performance in schools. While this is a step in the right direction, there are a few problems with the administration’s approach.

## USING COMPETITION TO PROMOTE REFORM

COMPETITION IS NOT a state of affairs; it is a process. Competition is defined not by the number of competitors in a market, but by the ease with which potential competitors can enter the market.<sup>13</sup> Barriers to entry prevent competition, and the education system in the United States contains many barriers to entry, including caps (or bans) on the number of charter schools allowed in a state, collective bargaining for teacher contracts at the state or district level, and standard setting at a national level.

In light of this understanding of competition, consider the administration's proposition of increasing the number of charter schools. The literature provides no conclusive evidence on the effectiveness of charter schools. A review of New York City charter schools shows that charter schools—in comparison to public schools—have been somewhat more effective in increasing student performance.<sup>14</sup> Yet, a national study found that in 46 percent of charter schools, students perform no differently than students in traditional public schools. Only in 17 percent of charter schools do students perform better than students in traditional public schools, and in 37 percent of charter schools, students perform worse than students in traditional public schools.<sup>15</sup> Importantly, however, this study also found charter schools located in states without a cap on charter schools perform better than those charter schools located in states with caps, which suggests that increasing competition through the removal of barriers to entry can improve student performance. In the context of these policies, charter schools can promote competition within the education system by performing better than traditional public schools. The key, however, is to recognize that simply bringing in more competitors will not accomplish this goal—barriers to entry must be removed.

Performance pay has the potential to increase teacher quality. It seems based on sound logic: If teachers receive bonuses or benefits if their students perform better than a baseline, they should want to explore methods for improving student performance. But the evidence on the link between performance pay for teachers and increased student performance is inconclusive.<sup>16</sup> Even if the evidence were highly conclusive, however, it would still be dangerous for the federal government to promote performance pay. By selecting which states receive federal funds, the federal government would, implicitly or explicitly, be setting standards for performance pay contracts nationwide that the individual schools—not the federal, state, or even local governments—should set, because the administrators at individual schools have the local knowledge needed to improve student performance.

To promote real competition, competition that might have the potential of improving student performance, the Obama administration must avoid setting national standards. One of the inherent strengths of the federalist system in the United

States is that it allows and encourages competing models of state provision of services. In the case of education, it lets local communities and districts test what works best for them, given their constraints and objectives. Currently, however, freedom of entry does not exist in the realm of education due to local monopolies of school districts and state and federal mandates. The federal government should encourage policies that decentralize control and improve local decision-making processes through allowing freedom of entry in the provision of education.

## CONCLUSION

THE OBAMA ADMINISTRATION should consider its reform efforts in light of a fuller understanding of competition and the effects that national standards have on competing models of the state provision of education. Competition, when understood as a process, can have some very beneficial outcomes. Markets show that competition serves as a cost-saving and quality-enhancement mechanism. For education, it could mean fewer resources spent with higher student performance.

In promoting a national education policy, the Obama administration risks promoting homogeneity and stagnation within the education system rather than promoting competition. As long as there is monopoly provision of education, improvements made within that context will have minimal impact on student performance—despite the type of strategy chosen. Good policy encourages diversity of approaches so that each state, district, or municipality can find what works best given their constraints and objectives.

The federal government should encourage policies that decentralize control and improve local decision-making processes through allowing freedom of entry in the provision of education.

## ENDNOTES

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