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What is This?
APPLYING PERFORMANCE INCENTIVES TO SCHOOLS FOR DISADVANTAGED POPULATIONS

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School reform has been a priority issue since the publication of A Nation at Risk (National Commission on Excellence in Education, 1983). That report significantly increased the production of new reports about school reform but, unfortunately, did little to bring about real reform. The situation in schools is, if anything, worse today than in 1983, and the need for true reform is much more serious. This reform imperative holds particularly true for the case of disadvantaged students who, without significant changes, may slip even further behind the rest of society.

The movement to reform our schools is motivated in large measure by economic issues. Concerns over the strength of the United States, the incomes of its citizens, and gaps between standards of living for different racial groups are consistently and forcefully grounded in questions about the quality of our schools. A parallel issue, seldom addressed in the reform reports, is whether the steadily increasing school funds are being used effectively. These economic issues are at the core of interest and apprehension about the state of the nation’s schools.

This article begins with the underlying assumption that economic principles are essential to any true reform of the education system. Economists have learned much over the years about the role that education plays in developing worker skills. Recently, economists have examined how schooling affects such diverse things as the character of international trade and the choices that families make about investments in their own health. The results of this work have not, however, been adequately incorporated in the nation’s thinking and policies toward schools. Most important, standard economic principles are seldom applied to policy making or to the administration of schools.

This article grows out of the efforts of a panel of American economists to bring to school reform a variety of economic perspectives and approaches,
ideas that are discussed more fully in the report *Making Schools Work: Improving Performance and Controlling Costs* (Hanushek, 1994). Although the report does not point to a specific program or reorganization of schools that will solve all of the problems, it does suggest an overall approach that includes (a) strengthening performance incentives, (b) putting in place a set of decision-making rules that compare costs and benefits, and (c) an emphasis on experimentation and evaluation. These crucial ingredients are generally missing from today's schools.

Policy makers frequently give special attention to the education of disadvantaged students. Lower academic performance by economically disadvantaged students and by minority students is well documented and is a source of national concern. Yet the policy responses fall far short of what is needed. Much of the response falls into the category of doing more of what we are currently doing—even though that may be quite ineffective. Dealing with disadvantaged populations is more difficult than providing schooling for more advantaged populations, but there is no escaping the need for fundamental change in the structure of our nation's schools.

**THE IMPORTANCE OF HIGH-QUALITY SCHOOLING**

Because the system of schooling allows little room for individual preference or competition among alternative suppliers, it is important that the public have some voice in how it is organized. The central questions are the following: (a) Are we as a nation investing the right amount in schooling? and (b) Are resources devoted to schooling being used in the best possible way?

Economists tend to focus on the trade-offs between alternative uses of resources. Money spent on schools cannot be used for buying health services, consumer goods, or national defense (and vice versa). Economists devote little attention to evaluating choices that individual families make, such as whether to purchase a television or a car, and assume that individuals make informed choices about things that directly affect them. But when government is heavily involved in the decision making, the possibility of under- or overinvesting is more likely. Moreover, if resources are not used effectively, which is also more likely when there is little competition, society gives up too many other things to get its schooling.

Analysis demonstrates clearly that education is valuable to individuals and society as a whole. The economy values skilled individuals, which is reflected directly in the high relative labor market earnings and low relative unemploy-
ment rates of the more educated. These facts alone justify general investment in schooling, but they are only part of the story. More educated members of society are generally healthier, more likely to become informed citizens who participate in government, less likely to be involved in crime, and less likely to be dependent on public support. The education level of the workforce also affects the rate of productivity growth in the economy, and thus the future economic well-being of society. These latter factors are important because they provide clear reasons for governmental support and finance of education (as opposed to purely private finance).

Much of the analysis of the effects of education on earnings and the economy relates to the amount of schooling obtained by the population. Because growth in school attainment of the population has decreased markedly, the recent debate has become much more directed at quality differences. In simplest terms, are students learning sufficient amounts during each year of schooling, and what is the impact of differences in learning across individuals?

The strongest evidence about the effects of school quality relates to individual earnings. Better skilled individuals, who typically have attended better quality schools, are rewarded in the labor market. There is also evidence that such skills are becoming increasingly valuable as a highly technical workplace looks for people to fill jobs. Finally, school quality directly affects the amount of school that an individual completes—students from better schools are more likely to seek postsecondary education and enjoy the added rewards of increased quantity. These benefits again justify investments in school quality.

Recent divergences in the distribution of earnings also appear to be related to school quality. A dominant factor is that those who complete college currently earn much more than those holding only a high school diploma (or less), but the direct effect of student cognitive achievement on earnings also reinforces this widening income distribution. Indeed, recent analyses (Neal & Johnson, 1996; O'Neill, 1990; Rivkin, 1991) suggest that the differences in measured cognitive skills between Blacks and Whites are powerful determinants of subsequent economic success.

THE STATE OF OUR SCHOOLS

What has been happening in schools is clear; the rapid increases in school expenditures over the past three decades have simply not been matched by measurable increases in student performance. Moreover, detailed studies of
schools have shown a variety of inefficiencies that, if corrected, could provide funds for a variety of improvement programs.

There has been a dramatic rise in real expenditure per pupil over the entire century. Figure 1 shows that after allowing for inflation, expenditures per pupil have increased at almost 3.5% per year for 100 years (Hanushek & Rivkin, 1997; Hanushek, Rivkin, & Jamison, 1992). This remarkable growth is only partially explained by such things as increases in special education or changes in the number of immigrant students in the school population, although those have had a noticeable impact on school expenditures. Figure 1 also shows that expenditure on instructional staff salaries has risen more slowly than expenditures on all other items, particularly during the past two decades.

These spending changes have resulted from policies commonly seen as ingredients to school improvement. Table 1 shows major resource changes between 1960 and 1990. For the nation, pupil-teacher ratios fell by one third, from more than 25 to 17. The percentage of teachers with at least a master's degree more than doubled, and teacher experience, although following demography cycles, reached a postwar high in 1990. These attributes of schools directly impact on expenditures, which almost tripled in real per-student terms between 1960 and 1990.

Matched against this growth in spending, student performance has at best stayed constant and, in fact, may have fallen. Although aggregate perfor-
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<td>Pupil-teacher ratio</td>
<td>25.6</td>
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<td>18.8</td>
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<td>Percentage teachers with master's</td>
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<td>23.1</td>
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<td>Median years teacher experience</td>
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<td>Current expenditure/average daily</td>
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mance measures are somewhat imprecise, all measures point to no significant gains in student performance over time. The path of achievement on reading, math, and science exams (shown in Figures 2-4) is representative of the performance pattern for the population as a whole and for racial subgroups (U.S. Department of Education, 1994). These figures show the performance over time of a representative sample of 17-year-olds on the various components of the National Assessment of Educational Progress (NAEP). In simple terms, overall trends have been flat. Although math scores are up slightly, reading scores are virtually constant, and science scores have fallen. Since 1970, the gap between racial and ethnic groups has significantly narrowed, but this trend has not been steady and future projections are uncertain (see also Hauser & Juang, 1996).

Figure 5 provides more information by tracking Scholastic Aptitude Test (SAT) scores over a longer period. Although the SAT, unlike the NAEP, is not a representative sample, substantial falls in overall performance and continuing racial gaps are nonetheless clear (Congressional Budget Office, 1986). The changes in aggregate spending on schools have not been sufficient to eliminate or even reduce the long-standing performance gaps between advantaged and disadvantaged students.

The pattern of spending changes in recent years points to an upcoming fiscal crisis for the nation's schools. During the 1970s and 1980s, the U.S. student population fell dramatically, offsetting increases in per-pupil expenditures. Thus aggregate spending on schools rose much more slowly than per-pupil expenditures (Hanushek & Rivkin, 1997). But the student population is again rising and, when combined with the growth in real spending per student, will push aggregate spending to a much higher rate than it has been
over the past decade. These increases will likely collide with growing public perceptions that school performance is not rising, causing local taxpayers to resist future spending increases. Added to this projected squeeze, many major urban districts face fiscal pressures from competing demands for public revenues, such as welfare or police funding. In short, the worst of the fiscal crisis might appear in the already pressured schools of major cities.

A series of more detailed studies (Hanushek, 1986, 1989, 1996) document a variety of common policies that increase costs but offer no assurances of commensurate improvements in student performance. Perhaps the most dramatic finding is that smaller class sizes usually have no general impact on
student performance, even though they have obvious implications for school costs. Although some specific instruction may be enhanced by smaller classes, student performance in most cases is unaffected by variations in class size—at least when class sizes fall within the range of 15 and 40 students. Despite this finding, the overall policy of states and local districts has been to reduce class sizes in an attempt to increase quality. Another dramatic finding is that obtaining an advanced degree does little to ensure that teachers do a better job in the classroom. Because a teacher’s salary invariably increases with the completion of a master’s degree, this is another example of increased expenditure yielding no gains in performance. These findings
about effectiveness of resources stand in stark contrast to the data in Table 1, which indicate consistent policies to increase the usage of these resources.

There is no consensus about which specific factors affect student performance, but there is overwhelming evidence that some teachers and schools are significantly better than others. For example, in one inner-city school system serving an entirely Black population, good teachers were found to surpass bad teachers by more than a full grade level of student achievement over a single academic year (Hanushek, 1992). These dramatic differences in performance are simply not determined by the training of teachers, the number of students in the classroom, or the overall level of spending. In fact,
Figure 5: Scholastic Aptitude Test Scores: Total and by Race, 1966-1995

schools can generally make improvements in their performance at no additional cost, simply by using existing resources effectively. Even if they are dressed up in new clothing, continuing past policies is unlikely to lead to student performance gains. Although it may be appropriate to increase spending on schools in the future, the first priority is restructuring how existing resources are being used. This is true for education of special-needs students as well as those in regular classrooms.

NECESSARY ACTIONS

The lack of an overall relationship between resources and performance should not come as a surprise. The most startling feature of schools—a feature distinguishing schools from more successful parts of our economy—is that rewards are only vaguely associated with performance, if at all. A teacher
produces exceptionally large gains in student performance generally is not rewarded with compensation, career advancement, job status, or general recognition. Nor is a superintendent who maintains student achievement levels while spending less. Likewise, a student who gets high grades is not necessarily going to be rewarded with a better job than is offered to the student with low grades (Bishop, 1996). If there are few incentives to improve, it should not be surprising to find that resources are not systematically used in a fashion that improves performance.

These results reflect the structure and operating procedures of schools observed in the existing settings (Hanushek, 1994). A different organizational structure with different incentives could produce very different results. For example, increasing teacher salaries might expand and improve the pool of potential teachers, but this would only improve the quality of teaching if schools could systematically choose and retain the best teachers from the pool (Ballou & Podgursky, 1995). In other words, money could count but generally does not within the current organization of schools.

Moreover, some schools clearly use funds effectively and others do not. However, unless some way is found to change districts that squander funds into districts that use funds effectively, added resources are not likely to lead to any improvement in average performance.

Any reform program must explicitly consider both the costs and the potential benefits of changes. Virtually all past considerations of school reform have simply ignored costs or argued that the benefits are large enough to support any proposed increase in costs. Overall, disregard for cost undoubtedly lowers the likelihood that any new proposals will be taken seriously, by policy makers and the public will be concerned with the price tag attached to any major school-restructuring plans. As indicated above, however, attention to both costs and benefits should not only be restricted to new programs; many existing programs are inefficient and should be replaced by more cost-effective programs.

The policy suggestions here differ from those of most previous school reform documents in that we do not recommend a specific program or restructuring of schools. In our opinion, current knowledge simply does not support specific choices or broad recommendations. Indeed, many different approaches might be used simultaneously in a revised and effective schooling system. On the other hand, certain strategies in possible reforms are clearly more beneficial, and we emphasize these. Strategies involving improved incentives, ongoing evaluation, transmission of performance information, and consistent application of rational decision rules are central to any productive reform path. In our view, incentives based on student outcomes hold the largest hope for improving schools. This idea is radically different from
most past policies, which have been based on a combination of regulations and fixed definitions of inputs to schooling—the resources, organization, and structure of schools and classrooms. Little attention has been focused on the results. Improvement is much more likely if policies are built on what students actually do and if good performance by students is rewarded. If properly designed, performance incentives will encourage the ingenuity and effort needed to develop and implement effective programs.

A wide range of incentive structures offer hope for improving schools. These systems are the subject of much heated debate and frequently bring forth emotional responses. Some leading recommendations include the following:

- charter schools that allow a group of teachers or interested parties to invent their own school with separate governance, subject to agreement about their performance;
- merit schools that provide rewards to entire schools if they are judged to be performing at a high level;
- merit pay for teachers and principals, which provides individual rewards based on observed performance with students;
- private contracting for services, which pays outside firms to manage existing public schools subject to contractual guarantees and restrictions;
- magnet schools that offer students some choice across the offerings of a district, usually differentiated by certain specialized programs or organizational themes;
- public school choice, which permits expanded individual choice of schools either across an individual district or across all schools in a state; and
- educational vouchers that provide funds so that students can attend their choice of public or private schools (Hanushek, 1994).

Each of these systems conceptually focuses attention and incentives on performance, either through school evaluations or parental involvement. The key is that there is an explicit attempt to identify student performance and that, over time, resources will flow in the direction of higher performance. This resource flow might originate with the determinations of public officials or it might simply follow the movement of students (who are seeking good educational opportunities).

These incentive approaches are virtually untested. Some examples exist, but the data on them are largely anecdotal. For example, more than 20 states now permit charter schools, and some of the first to be authorized are now in place, but evaluations are not yet available. Kentucky and South Carolina have developed a program for identifying good schools and have provided
some school-specific rewards based on this identification, but the impact on school performance is currently unclear. Perhaps the only policy truly tested, and with limited success, is merit pay (Cohen & Murnane, 1986). Magnet schools have been instituted on a fairly broad scale, largely for desegregation purposes, but the educational impact has not been fully analyzed. Many states and localities have introduced choice plans, but the available information concerns the flow of students, not their achievement. Finally, evidence from a small-scale experiment with vouchers in Milwaukee indicates increasing take-up rates of vouchers, and parental satisfaction with the system, but uncertain changes in student performance (Peterson, Greene, & Noyes, 1996; Witte, Bailey, & Thorn, 1993). In sum, existing knowledge about incentive systems tells us neither which forms are best nor what results we might expect from broader use of any specific system.

It seems clear that improvement on a large scale will be possible only with the development of a knowledge base about effective incentive system approaches. Evaluation is central because we must be able to disseminate and build on good results, but complicated by the need to disentangle the various influences on student performance. Schools and teachers are just two factors that affect student learning; students and their parents also influence performance, as do other students and members of the community. Therefore, evaluation must concentrate on determining which positive effects can actually be traced to schools, more specifically to their programs and organization. To do so will require achieving a consensus about how good performance is to be defined and rewarded.

Developing specific evaluation measures is especially important when considering the education of disadvantaged students. Students are generally classified as disadvantaged because the educational inputs outside of the schools are believed to be lacking. For evaluation and incentive purposes, it is important to concentrate on what teachers and schools can control, and not to penalize them for what they cannot. Thus, for example, a reading teacher who elicits a grade-level gain in average student achievement should receive credit even if his or her students continue to read below grade level. It is common to write off entire central city school systems on the basis of below-average test performance by students—even if some or most of the teachers are getting above-average gains from their students. Similarly, it is equally common to credit some wealthy suburban districts for the high SAT scores of their students—even if some or most of the teachers are getting less-than-average gains from their students. It is important to emphasize that a shift from this approach to the use of value-added measures does not imply a lowering of achievement goals as well. Instead, it emphasizes the need to identify where good and bad performance arises.
Any improved system will have to harness the energy and imagination of the personnel in the local schools. If incentives are instituted to reward performance, school personnel must have the freedom to institute the programs and approaches that will best enhance student performance. And, as indicated, the specific plan will almost certainly differ across schools and teachers, even if everybody faces the same reward structure for student performance. In other words, this approach requires decentralized decision making, and some form of site-based management is likely to be an important ingredient.

Even though site-based systems are one of the most popular reform approaches in the country today, most existing plans, proposals, and uses of site-based management are not directly linked to student performance (Summers & Johnson, 1996). Without such linkage, decentralized decision making has little general appeal. In short, site-based management is not an end in itself but a means for implementing other reforms. Moreover, there is little evidence to suggest that sufficient capacity for such decision making currently exists. As with many of the changes suggested here, the implementation will involve a period of learning and of attracting suitable personnel to carry out the program.

REFORM FOR SCHOOLS OF THE DISADVANTAGED

The educational problems of the disadvantaged are frequently treated in an entirely different way than general reform, but we believe this is inappropriate. The disadvantaged population of this country has undeniably low average performance levels in the schools, and society must follow through on its general commitment to eliminate these disparities. At the same time, the most effective approaches to education of the disadvantaged will be based on the same principles espoused here. Careful attention to student outcomes, the development and institution of performance incentives, the evaluation of programs, and attention to both costs and benefits must be central to any plan for improving the education of disadvantaged students. Some of the most promising approaches to the education of the disadvantaged—for example, the Accelerated Schools program—follow the basic principles outlined here, such as having clear objectives and incorporating regular evaluation of student performance into the school structure (Hopfenberg et al., 1993; McCarthy & Still, 1993). Programs for the disadvantaged must, as for other programs, be driven by performance. These programs may differ in detail from programs for more advantaged students—for example, by focusing
more attention on how families become involved in the program—but they still rely on a better matching of school to students and personnel. More attention might also be devoted to such methods as early childhood education for the disadvantaged, but only if they are rigorously evaluated. Finally, these programs may well involve additional resources, but only if they are linked to developing and instituting effective programs.

The evidence on effectiveness of programs for the disadvantaged mirrors that on overall effectiveness of spending. Some programs appear to work, some do not, and many show no effect (see Mullin & Summers, 1983). As with other spending policies, it is difficult to mount an effective compensatory program without a description of what differentiates a good program from a bad program. Instead, there is continual change but little reason to believe that the impact on learning will be significant.

Perhaps the most employed argument to support the form of past and existing programs for the disadvantaged is the simple observation that Black and White performance has narrowed some over time (see Figures 2-5, and Hauser & Juang, 1996). As the argument goes, this is consistent with the rise in spending on compensatory programs, and that spending provides the best explanation for improvement. A more sophisticated version of this (Grissmer, Kirby, Berends, & Williamson, 1994) attempts to purge the test score trends of changes in family circumstances. In carrying out this study, Grissmer et al. (1994) found that Blacks did better than would be expected on the basis of just family factors but that non-Blacks actually did worse than would be expected. Because substantial proportions of the increased school spending have gone to non-Blacks, these results would support evidence of strong compensatory programs only if we also believe that spending on Blacks tends to be significantly more effective than that on non-Blacks.

One special version of reform, school finance reform, is frequently linked to disadvantaged students. Ever since the California court case of Serrano v. Priest (1971) thrust school finance issues onto the policy agenda in the late 1960s, the need to correct inequities in the fiscal support of schools has been considered a priority. Many assert that we cannot expect to improve the schooling of the disadvantaged when we operate a system of state finance that systematically discriminates against them. Court cases dealing with this issue typically concentrate on the fact that local school funds frequently come from property taxes, linking the ability to raise funds to property wealth in the district. This argument has considerable popular appeal, but it is frequently incorrect and almost always misleading.

The basic tenets of school finance reform are (a) that the spending on poor children is decisively affected by their living in property-poor districts and (b) that spending is closely linked to school quality. Both tenets are problem-
atic. We have already seen that school quality is not directly related to funding levels. Further, property wealth of a district is determined not only by housing values but also by its commercial and industrial property. Because the distribution of nonresidential property does not follow the same pattern as the distribution of individual incomes, the correlation between district property wealth and wealth of district residents tends to be low in many states. Specifically, some of the wealthiest cities in the nation also have some of the largest poverty populations (Hanushek, 1995). Moreover, a variety of factors affect spending, including demand for schooling, preferences of the community, efficiency of school operations, and income and wealth. Except in the wealthiest districts, spending appears to be unrelated to poverty or minority distributions (Parrish & Fowler, 1995).

The appeal of school finance policy has ultimately been its simplicity. The description of unequal distributions of wealth across schools being a key factor in limiting spending on poor children has a surface plausibility. This fiscal disadvantage is then frequently linked to the high cost of special programs for the disadvantaged, which, if funded, promise to help close the performance gaps. Therefore, a change in finance formulas could bring about the desired improvements in schooling for the disadvantaged. Unfortunately, the simple logic does not hold up to direct scrutiny.

Another frequently attempted reform strategy is aggressive management of schools for the disadvantaged. New Jersey, for example, garnered significant attention by moving to take over the operation of the Newark schools (MacFarquhar, 1995). Although some states permit such actions, they are typically motivated more by fiscal management concerns than by academic management concerns. The Newark takeover was atypical in that it was based on evidence of poor academic performance and was designed to improve the quality of education. There is, however, little evidence to suggest that this approach will succeed. If the state really knew how to appoint better managers, why would it wait for an absolute disaster before intervening? The prior evidence suggests that the average management of schools—both for advantaged and disadvantaged students—is lacking.

Indeed, when academic bankruptcy is declared, it is based on the harm that has been done to existing students. Something more should be done for the existing students in order to try to salvage the remaining parts of their schooling. Bringing in a new management team, even if it is a superior one, is unlikely to lead to many immediate improvements, because it must work with all of the existing teachers and administrators who have been involved in the failure. Thus such a policy is unlikely to help many of the current students for whom any improvements will come too late. This situation, in my mind, calls for much more aggressive action, such as the immediate
provision of vouchers to any Newark student desiring to transfer to a different system. Expanding the chances that a student who has suffered with a badly performing system can attend a better functioning school system seems to be a high priority when the system becomes bad enough to be declared a disaster. Uncertainties abound in this recommendation. As noted, the limited experience with the Milwaukee voucher program does not give reason to expect any miraculous growth in achievement. Nor is it clear how supply of alternative schools would change to accommodate such a large shock as opening up vouchers to a system the size of Newark. Nevertheless, because the correct comparison is not with the best functioning system but with a system already declared harmful to children, the uncertainty seems quite acceptable.

IMPLEMENTING CHANGE

The current system of U.S. schools does not emphasize student performance, so it is not surprising that performance does not match our hopes and expectations. But beyond that the current structure is not on a path to improvement. Most new programs offer few incentives to improve student achievement, and very little experimentation or evaluation is conducted. Each of these needs to be changed, but change also implies very different roles for the participants in the system. This discussion highlights key issues involved in redirecting the focus of school policy.

The current teacher or principal would be in a very different situation under virtually any incentive system considered here. In many ways, teachers are the most important ingredient of our schooling system, and they must become an active part in the development of improved schools. The teachers who function best within a new system with enhanced decision-making roles may be quite different from many current teachers in terms of experience, training, and expectations. Current teachers cannot, however, be ignored in the process. Even though there will be a significant turnover of teachers over the next decade, the current stock of teachers will remain a substantial portion of the total teacher force for many years to come. Implementation of new approaches that involve very different responsibilities and rewards could involve a two-tiered system of employment contracts, in which the contracts of new teachers would generally involve fewer tenure guarantees, more risks, and greater flexibility and rewards. Existing teachers would continue under existing employment rules for tenure, pay, and work conditions unless they individually opt for the new contract. Such a structure is designed to recog-
nize the legitimate contractual arrangements with existing teachers while establishing radically different structures and contracts that are consistent with the different incentive structures advocated here.

State governments also need to make substantial changes in their role in education, promoting and encouraging experimentation and implementation of new incentive systems. The future of school reform depends on developing new information, and the states have an essential position in this endeavor. The states must first work to remove unproductive "input" regulations and certification standards, which currently form the core of most current state educational programs. These should be replaced by performance standards and explicit student outcome goals. But even as they encourage experimentation with alternative incentive structures and technologies and provide direct support for the evaluation and dissemination of program information, states must be aware that local districts currently lack the capacity to develop, implement, and evaluate their own systems. In fact, states are likely to resist permitting complete flexibility within local districts. Should they feel the need to intervene, it should be through providing more alternatives to nonperforming school districts, such as extensive choice or voucher opportunities. The opposite approach, pursued now, is either to develop extensive input and process regulations to reduce the range of potentially unacceptable actions by local districts or to threaten to replace existing districts with state personnel. Neither provides the right incentives nor any real assurance of improvement.

For its part, the federal government should take on a primary role in developing outcome goals and standards, developing performance information, supporting broad program evaluation, and disseminating the results of evaluations. It should also remain involved in supporting supplemental programs for disadvantaged and minority students. Such programs should follow the same guidelines as above, but they may also involve expansions of earlier childhood education, integrated health and nutrition programs, and other interventions to help make up for background disadvantages. Providing these added programs is the proper role for the federal government, which strives to ensure equality of opportunity for all citizens.

Local school districts, meanwhile, should take new responsibilities for curricular choices, management of teacher and administrative personnel including hiring and firing on a performance basis, and establishing closer links with businesses (particularly for students not continuing on to post-secondary schooling). Although none of these roles differs markedly from current activities, a significant shift in content would occur if states removed many of their restrictions on instruction and organization. Moreover, if major
decisions devolved to local schools, new emphasis would be placed on management and leadership, leading inevitably to the development of new capacities.

Businesses also must take on new roles. Although U.S. businesses have frequently lamented the quality of workers they receive from schools, they have never worked closely with schools in defining the skills and abilities that they seek in prospective workers. More direct business input to schools, perhaps coupled with long-term hiring relationships, could be mutually beneficial. Moreover, if businesses insist on high performance in school, showing interest in transcripts and other evidence of scholastic performance, the incentive for students to work hard in school would increase dramatically. Finally, the movement of schools into the realm of performance incentives would put them more in line with businesses that have traditionally employed such incentives. Businesses could be helpful in developing effective systems of performance incentives for school personnel.

A school system that regularly generated and disseminated performance information would provide a greater role for students and parents. Many of the approaches, such as expanded choice or more decentralized decision making, require the active involvement of parents. Currently, there are few ways for parents to interact effectively with schools, but greater emphasis on, and information about, performance could alter this situation dramatically.

CONCLUSION

Most school reform reports begin and end with a plea for additional funding. This is especially true of schooling for the disadvantaged. Many construe reform simply as a matter of mobilizing support to provide sufficient resources for beleaguered school systems. In sharp contrast, I have argued here that it is crucial to concentrate first on incentives and fundamental organizational issues. These should precede any substantial changes in funding.

The dichotomy between the good intentions of school finance and the reality of schools is pervasive. For example, it is instructive to contrast Jonathan Kozol's views on school spending with his ideas about school policy. In his book, *Savage Inequalities*, Kozol (1991) implied that the horrific situation in many of our nation's schools can be remedied simply by bringing the unsafe and unsanitary schools up to the spending level of the most opulent public schools. On the other hand, the main theme of Kozol's (1967) equally compelling *Death at an Early Age* is that the current organization of schools, with few incentives to improve student performance,
squanders the good resources that are available. Although powerful, Savage Inequalities does nothing to address how these problems could be solved.

People often attempt to deal with the conflict between reality and desires by identifying a specific program that appears to offer some improvement in student performance, claiming that some districts are precluded from introducing this program because of its cost and asserting that extra funding would correct the situation. This line of argument typically fails on two counts: (a) Extra funding does not ensure that most districts will actually introduce the identified productive program, and (b) experience demonstrates that many programs that appear to work in one place are not easily transferred to another. Important aspects of the program frequently are not sufficiently understood to permit easy diffusion. The result is that the transplanted program does not produce the anticipated results.

There is no evidence to indicate that more of the same—more spending and more equalized spending—will lead to improvements in the very real problems of our schools without a series of more fundamental changes in perspective and organization. Our current system of schooling is geared toward mediocrity. We neither reward success nor make much effort to uncover what is successful (Hanushek, 1994). Without changing incentives, there is simply no reason to expect schools to improve, regardless of the good intentions or added resources that might be supplied.

REFERENCES


